



徽商銀行股份有限公司 Huishang Bank Corporation Limited

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

Stock Code : 3698

Stock Code of Preference Shares : 4608

2018 INTERIM REPORT



Contents

Definitions	2
Chapter I Corporate Information	4
Chapter II Summary of Accounting Data and Business Data	6
Chapter III Management Discussion and Analysis	8
Chapter IV Changes in Share Capital and Particulars of Shareholders	56
Chapter V Directors, Supervisors, Senior Management, Employees and Institutions	63
Chapter VI Corporate Governance	69
Chapter VII Significant Events	72
Chapter VIII Interim Financial Report	76

Definitions

In this interim report, unless the context otherwise requires, the following terms shall have the meaning set out below.

"Bank" or "Huishang Bank"	Huishang Bank Corporation Limited, including its subsidiaries, branches and sub-branches
"CBIRC"	the China Banking and Insurance Regulatory Commission
"CBRC"	the former China Banking Regulatory Commission
"CBRC Anhui Office"	the China Banking Regulatory Commission Anhui Office
"CIRC"	the former China Insurance Regulatory Commission
"CSRC"	the China Securities Regulatory Commission
"Domestic Shares"	the ordinary shares issued by the Bank in the PRC with a nominal value of RMB1.00 per share
"H Shares"	ordinary shares issued by the Bank to overseas investors which are denominated in RMB, subscribed for in Hong Kong Dollars and listed on the Main Board of the Hong Kong Stock Exchange
"HK\$" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share Listing"	the listing of H Shares of the Bank on the Main Board of the Hong Kong Stock Exchange
"H Share Listing Date"	the date on which dealings in H Shares of the Bank first commenced on the Hong Kong Stock Exchange, i.e. 12 November 2013
"Latest Practicable Date"	the latest practicable date for the purpose of ascertaining certain information contained in this report, i.e. 24 August 2018
"Non-green Industries"	the heavily-polluting, highly energy-consuming and over-capacity industries
"PBOC"	the People's Bank of China

Definitions

"Offshore Preference Shares"	44,400,000 non-cumulative perpetual offshore preference shares with a nominal value of RMB100 per share issued by the Bank at the issue price of US\$20 per share and listed on the Hong Kong Stock Exchange to raise US\$888 million
"Reporting Period"	the first half of 2018 (1 January 2018 to 30 June 2018)
"Three Dimensional Rural Issues"	abbreviation for issues relating to agriculture, rural areas and farmers
"US\$" or "U.S. dollars"	U.S. dollars, the lawful currency of the United States
"Yuan" or "RMB"	Renminbi, the lawful currency of China. Unless otherwise specifies herein, the currency used in this report shall be Renminbi

Chapter I Corporate Information

1.1 CORPORATE INFORMATION

- 1.1.1 Statutory Chinese name: 徽商銀行股份有限公司¹
Statutory English name: Huishang Bank Corporation Limited
- 1.1.2 Statutory representative: Wu Xuemin
Authorized representatives: Wu Xuemin, Ngai Wai Fung
Secretary to the Board of Directors: Lian Baohua
Company secretary: Ngai Wai Fung
- 1.1.3 Registered and business office address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC
Tel: +86-551-62667787
Fax: +86-551-62667787
Post code: 230001
Bank's website: www.hsbank.com.cn
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 40/F., Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong
- 1.1.6 Domestic auditor: Ernst & Young Hua Ming LLP
Office address: Room 01-12, Level 17, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Avenue, Dong Cheng District, Beijing, the PRC
International auditor: Ernst & Young
Office address: 22/F, Citic Tower, 1 Tim Mei Avenue, Hong Kong
- 1.1.7 Legal advisor as to PRC law: DeHeng Law Offices
Legal advisor as to Hong Kong law: Latham & Watkins
- 1.1.8 Domestic Shares trustee agency: China Securities Depository and Clearing Corporation Limited
H Shares registrar: Computershare Hong Kong Investor Services Limited

Note: 1. Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.

Chapter I Corporate Information

1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997, and changed its name to Huishang Bank Corporation Limited on 30 November 2005. On 28 December 2005, the Bank officially merged with the 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and the 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened for business on 1 January 2006. On 12 November 2013, the Bank underwent H Share Listing (stock code: 3698). The Bank holds a financial institution license numbered B0162H234010001 approved by the CBRC Anhui Office and a business license (unified social credit code: 913400001489746613) approved by the Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, the PRC. As of 30 June 2018, the registered capital of Huishang Bank was RMB11,049,819,283. The Bank successfully issued Offshore Preference Shares with a total amount of US\$888 million in November 2016 and was listed on the Hong Kong Stock Exchange (stock code: 4608).

The Bank's principal business scope in the PRC covers the taking of deposits from corporates and retail customers, the granting of loans using the deposits received, and the conducting of capital business, which encompasses money market business, investment and trading business and transactions on behalf of customers. As of 30 June 2018, the Bank had 9,465 on-the-job employees. Apart from its headquarters, the Bank has 436 branches and sub-branches (including 17 branches and 419 sub-branches). The Bank has three subsidiaries, namely Huishang Bank Financial Leasing Co., Ltd., Jinzhai Huiyin Rural Bank Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd. and owns equity interests in Chery HuiYin Motor Finance Service Co., Ltd.

Chapter II Summary of Accounting Data and Business Data*

2.1 MAIN FINANCIAL INFORMATION

Unit: RMB million, except for percentages

	January to June 2018	January to June 2017	Changes over the corresponding period of the last year +/(-)%
Operational results			
Net operating income ⁽¹⁾	13,443	10,815	24.30%
Profit before tax	5,150	4,864	5.88%
Net profit attributable to shareholders of the Bank	4,273	3,780	13.04%

Unit: RMB, except for percentages

	January to June 2018	January to June 2017	Changes over the corresponding period of the last year +/(-)%
Per ordinary share			
Basic earnings attributable to shareholders of the Bank	0.39	0.34	14.71%
Diluted earnings attributable to shareholders of the Bank	0.39	0.34	14.71%
Closing net assets attributable to shareholders of the Bank	5.12	4.40	16.36%

Unit: RMB million, except for percentages

	30 June 2018	31 December 2017	Changes over the end of the last year +/(-)%
Scale indicators			
Total assets	955,208	908,100	5.19%
Including: Total loans and advances	347,761	314,694	10.51%
Total liabilities	890,682	848,888	4.92%
Including: Total customer deposits	532,552	512,808	3.85%
Equity attributable to shareholders of the Bank	62,552	57,703	8.40%

Note: (1) Net operating income comprises net interest income, net fee and commission income, net trading income, net income from financial investments, as well as other net operating income, excluding net income from investments in associates.

* Interim financial data of the Bank have not been audited.

Chapter II Summary of Accounting Data and Business Data*

2.2 FINANCIAL RATIOS

	January to June 2018	January to December 2017	January to June 2017	Unit: % Changes over the corresponding period of last year + / (-)
Profitability indicators⁽¹⁾				
Return on average assets	0.92	0.94	1.00	(0.08)
Return on average equity of shareholders	15.37	15.56	16.04	(0.67)
Net interest spread	2.19	2.18	2.18	0.01
Net interest margin	2.39	2.31	2.32	0.07

Proportion of net operating income

– Net interest income	82.15	89.73	88.54	(6.39)
– Net non-interest income ⁽²⁾	17.85	10.27	11.46	6.39
Cost-to-income ratio (including tax and surcharges) ⁽³⁾	21.95	25.90	23.51	(1.56)

	30 June 2018	31 December 2017	30 June 2017	Unit: % Changes over the corresponding period of last year + / (-)
Asset quality indicators				
Non-performing loan ratio	1.02	1.05	1.06	(0.04)
Allowance to non-performing loan ratio	288.74	287.45	273.21	15.53
Allowance to loans ratio	2.94	3.01	2.90	0.04

Capital adequacy indicators

Core tier I capital adequacy ratio	8.51	8.48	8.62	(0.11)
Capital adequacy ratio	11.97	12.19	12.42	(0.45)
Equity to total assets ⁽⁴⁾	6.76	6.52	6.90	(0.14)

Notes: (1) The ratios are annualized.

(2) Net non-interest income in this indicator comprises net fees and commission income, net trading income, net income from financial investments, as well as other net operating income, excluding net income from investments in associates and joint ventures.

(3) Cost-to-income ratio = Operating expenses/Operating income.

(4) Equity includes minority interests.

Chapter III Management Discussion and Analysis

3.1 OVERALL BUSINESS REVIEW

In the face of the complex external situations and increasingly fierce peer competition during the first half of 2018, the Bank upheld the concept of “strengthening management, focusing on innovation and refining structure” and actively grasped opportunities arising from basic clients, basic assets, basic liabilities and basic services to develop itself into a modern bank focusing on quality development. As such, the Bank managed to realize steady growth in various business segments and continuous improvement at operating and management levels.

The scale of assets and liabilities increased moderately. As at the end of June 2018, the total assets of the Bank were RMB955,208 million, representing an increase of RMB47,108 million or 5.19% as compared with the end of last year. Total loans and advances were RMB347,761 million, representing an increase of RMB33,067 million or 10.51% as compared with the end of last year. Total customer deposits were RMB532,552 million, representing an increase of RMB19,744 million or 3.85% as compared with the end of last year.

3.2 ANALYSIS OF INCOME STATEMENT

3.2.1 Particulars of financial performance

	January to June 2018	<i>Unit: RMB million</i> January to June 2017
Net interest income	11,043	9,575
Net fee and commission income	1,698	1,470
Other net income	702	(231)
Operating expenses	2,951	2,543
Provision for insurance claims	–	–
Share of profits in associates	66	75
Share of profits of joint ventures	–	–
Impairment losses on assets	5,408	3,482
Profit before tax	5,150	4,864
Income tax expense	855	963
Net profit	4,295	3,901
Net profit attributable to shareholders of the Bank	4,273	3,780

From January to June 2018, the Bank realized a profit before tax of RMB5,150 million, representing an increase of 5.88% as compared with the same period of last year. The effective income tax rate was 16.60%, representing a decrease of 3.20 percentage points as compared with the same period of last year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.2 Net operating income

From January to June 2018, the Bank realized a net operating income of RMB13,509 million (including income from investments in associates and joint ventures), representing an increase of 24.06% as compared with the same period of last year, among which, net interest income accounted for 81.75%, representing a decrease of 6.17 percentage points as compared with the same period of last year; net non-interest income accounted for 18.25%, representing an increase of 6.17 percentage points as compared with the same period of last year.

	January to June 2018 (%)	January to December 2017 (%)	January to June 2017 (%)
Net interest income	81.75	89.19	87.92
Net fee and commission income	12.57	12.56	13.50
Other net income	5.20	(2.35)	(2.11)
Income from investment in associates and joint ventures	0.48	0.60	0.69
Total	100.00	100.00	100.00

Note: Such analysis of net operating income comprises income from investments in associates and joint ventures; and other net income includes net profit or loss on trading, net income from financial investments and other net operating income.

3.2.3 Net interest income

From January to June 2018, the Bank's net interest income amounted to RMB11,043 million, representing an increase of 15.33% as compared with the same period of last year. Such increase was mainly due to an expansion of the scale of interest-earning assets.

The following table sets forth the average balances of assets and liabilities, interest income/expenses and annualized average yield/costs of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities represent the daily average balances.

	January to June 2018			Unit: RMB million, except for percentages January to June 2017		
	Average Balance	Interest Income	Annualized Average Yield (%)	Average Balance	Interest Income	Annualized Average Yield (%)
Interest-earning assets						
Loans and advances	321,033	8,151	5.11	290,502	6,897	4.75
Securities investments	456,350	12,056	5.31	398,178	9,523	4.78
Cash and balances with the central bank	77,525	600	1.56	78,552	598	1.52
Deposits and placements with banks and other financial institutions	44,478	604	2.73	36,223	424	2.34
Financial leasing	30,208	830	5.52	21,029	675	6.42
Total interest-earning assets and interest income	929,595	22,242	4.81	824,484	18,117	4.39

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.3 Net interest income (Continued)

Unit: RMB million, except for percentages

	January to June 2018			January to June 2017		
	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)	Average Balance	Interest Expenses	Annualized Average Cost Ratio (%)
Interest-bearing liabilities						
Borrowings from the central bank	26,775	407	3.06	14,041	173	2.46
Customer deposits	513,907	4,047	1.58	497,452	3,803	1.53
Deposits and placements from banks and other financial institutions ⁽¹⁾	202,133	4,092	4.07	157,055	2,561	3.26
Debt securities issued	117,012	2,653	4.56	104,130	2,005	3.85
Total interest-bearing liabilities and interest expenses	859,827	11,199	2.62	772,678	8,542	2.21
Net interest income	/	11,043	/	/	9,575	/
Net interest spread	/	/	2.19	/	/	2.18
Net interest margin	/	/	2.39	/	/	2.32

Note: (1) Included deposits and placements from banks and other financial institutions of insurance companies.

The annualized average yield of interest-earning assets was 4.81%, while the annualized average cost ratio of interest-bearing liabilities was 2.62%.

From January to June 2018, the net interest spread of the Bank was 2.19%, representing an increase of 0.01 percentage point as compared with the same period of last year. From January to June 2018, the net interest margin of the Bank was 2.39%, representing an increase of 0.07 percentage point as compared with the same period of last year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.3 Net interest income (Continued)

The following table sets forth the distribution of changes in interest income and interest expenses of the Bank caused by the changes in scale and interest rates for the period indicated. The changes in scale were measured by the changes of average balances (average daily balances); while the changes in interest rates were measured by changes in average interest rates. The scale changes and interest rate changes caused changes in interest income and expenses, which were included in the impact of interest rate changes on changes to the amount of interest income and expenses.

Unit: RMB million

	January to June 2018		
	vs.		
	January to June 2017		
	Increase (decrease) factors		Net increase
	Scale	Interest rate	(decrease)
Assets			
Loans and advances	725	529	1,254
Securities investments	1,391	1,142	2,533
Balances with the central bank	(8)	10	2
Deposits and placements with banks and other financial institutions	97	83	180
Financial leasing	295	(140)	155
Changes in interest income	2,310	1,815	4,125
Liabilities			
Borrowings from the central bank	157	77	234
Customer deposits	126	118	244
Deposits and placements from banks and other financial institutions	735	796	1,531
Debt securities issued	248	400	648
Changes in interest expenses	963	1,694	2,657
Changes in net interest income	1,346	122	1,468

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.4 Interest income

From January to June 2018, the Bank recorded an interest income of RMB22,242 million, representing an increase of 22.76% as compared with the same period of last year, which was mainly due to the expansion in the scale of interest-earning assets. From January to June 2018, the interest income from securities investments was RMB12,056 million, representing an increase of RMB2,533 million or 26.60% as compared with the same period of last year. From January to June 2018, the interest income from loans and advances of the Bank was RMB8,151 million, representing an increase of RMB1,254 million or 18.18% as compared with the same period of last year.

The following table sets forth the average balances, interest income and annualized average yields on each component of the Bank's loans and advances for the periods indicated:

Unit: RMB million, except for percentages

	January to June 2018			January to June 2017		
	Average Balance	Interest Income	Annualized Average Yields (%)	Average Balance	Interest Income	Annualized Average Yields (%)
Corporate loans	198,287	4,993	5.06	186,376	4,516	4.85
Retail loans ⁽¹⁾	109,990	2,847	5.20	81,120	1,955	4.82
Discounted bills	12,756	311	4.91	23,006	426	3.70
Loans and advances	321,033	8,151	5.11	290,502	6,897	4.75

Note: (1) Retail loans comprised personal business loans and personal consumption loans (included residential mortgage loans).

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.5 Interest expenses

From January to June 2018, the interest expense of the Bank was RMB11,199 million, representing an increase of RMB2,657 million or 31.10% as compared with the same period of last year, which was primarily attributable to an increase in the scale of liabilities and average cost rate.

Interest expense on customer deposits

From January to June 2018, the Bank's interest expense on customer deposits was RMB4,047 million, representing an increase of RMB244 million or 6.42% as compared with the same period of last year.

The following table sets forth the average balances, interest expenses and annualized average cost ratio of the Bank's corporate deposits and retail customer deposits for the periods indicated:

Unit: RMB million, except for percentages

	January to June 2018			January to June 2017		
	Average Balance	Interest Income	Annualized Average Cost Ratio (%)	Average Balance	Interest Income	Annualized Average Cost Ratio (%)
Corporate deposits						
Demand deposits	236,258	835	0.71	212,552	706	0.66
Time deposits	128,298	1,858	2.91	135,675	1,931	2.85
Sub-total	364,556	2,693	1.49	348,227	2,637	1.51
Retail customer deposits						
Demand deposits	55,011	152	0.56	48,626	106	0.44
Time deposits	74,270	1,063	2.88	58,514	835	2.85
Sub-total	129,281	1,215	1.89	107,140	941	1.76
Others ⁽¹⁾	20,070	139	1.39	42,085	225	1.07
Total customer deposits	513,907	4,047	1.58	497,452	3,803	1.53

Note: (1) Other deposits included margin deposits and credit card deposits.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.6 Net non-interest income

From January to June 2018, the Bank realized a net non-interest income of RMB2,467 million, representing an increase of RMB1,152 million or 87.60% as compared with the same period of last year, which was primarily attributable to the decrease in other net non-interest income.

The table below sets out the main components of net non-interest income of the Bank for the periods indicated:

	<i>Unit: RMB million</i>	
	January to June 2018	January to June 2017
Fee and commission income	1,841	1,563
Less: Fee and commission expenses	143	93
Net fee and commission income	1,698	1,470
Other net non-interest income⁽¹⁾	769	(155)
Total net non-interest income	2,467	1,315

Note: (1) Comprises net trading income, net income from financial investments, other net operating income and net income from investments in associates.

3.2.7 Net fee and commission income

From January to June 2018, the net fee and commission income of the Bank was RMB1,698 million, representing an increase of RMB228 million or 15.51% as compared with the same period of last year, which was primarily attributable to an increase in income from investment banking service fees, bank card fees and custody service fees.

The following table sets forth the principal components of the Bank's net fee and commission income for the periods indicated:

	<i>Unit: RMB million</i>	
	January to June 2018	January to June 2017
Fee and commission income	1,841	1,563
Settlement fee income	30	40
Guarantee and commitment fee income	107	101
Investment banking fee income	517	260
Custodian service fee income	260	240
Bank card fee income	288	225
Settlement fees	12	10
Agency service fees	587	657
Other fee income	40	30
Fee and commission expenses	(143)	(93)
Net fee and commission income	1,698	1,470

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.8 Other net non-interest income

From January to June 2018, the Bank realized other net non-interest income of RMB769 million, representing an increase of RMB924 million as compared with the same period of last year, which was mainly due to an increase in net income from financial investments, other net operating income and net trading income.

The following table sets forth the principal components of the Bank's other net income for the periods indicated:

	<i>Unit: RMB million</i>	
	January to June 2018	January to June 2017
Net income from financial investments	75	(40)
Net trading income	476	(121)
Net income from investment in associates	66	75
Other net operating income	152	(69)
Total other net income	769	(155)

3.2.9 Operating expenses

From January to June 2018, operating expenses of the Bank were RMB2,951 million, representing an increase of 16.04% as compared with the same period of last year.

The following table sets forth the principal components of the Bank's operating expenses for the periods indicated:

	<i>Unit: RMB million</i>	
	January to June 2018	January to June 2017
Staff costs	1,581	1,571
Tax and surcharges	100	73
Depreciations and amortization	209	213
Lease expenses	182	153
Other general and administrative expenses	879	533
Total operating expenses	2,951	2,543

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.10 Asset impairment losses

In the first half of 2018, the Bank's allowance to asset impairment losses was RMB5,408 million, representing an increase of 55.31% as compared with the same period of last year.

	<i>Unit: RMB million</i>	
	30 June 2018	30 June 2017
Loans and advances to customers	(2,194)	(2,394)
Financial investments	(2,577)	–
Deposits with banks and other financial institutions	(14)	–
Placements with banks and other financial institutions	(6)	–
Financial assets held under resale agreements	101	–
Credit commitments	(487)	–
Finance lease receivables	(258)	(113)
Other receivables	27	(80)
Debt instruments classified as receivables	–	(1,458)
Available-for-sale financial assets	–	563
Total	(5,408)	(3,482)

3.3 BALANCE SHEET ANALYSIS

3.3.1 Assets

As of 30 June 2018, the Bank's total assets amounted to RMB955,208 million, representing an increase of 5.19% as compared with the end of 2017. The increase in total assets was primarily due to an increase in investments as well as assets such as loans and advances.

Items	30 June 2018		<i>Unit: RMB million, except for percentages</i> 31 December 2017	
	Amount	% of the total	Amount	% of the total
Total loans and advances	347,761	36.41%	314,694	34.68%
Provision for loan impairment	10,233	1.07%	9,485	1.06%
Net loans and advances	337,528	35.34%	305,209	33.62%
Investments	435,872	45.63%	418,777	46.12%
Cash	1,211	0.13%	1,292	0.14%
Balances with the central bank	84,262	8.82%	91,066	10.03%
Deposits with banks and other financial institutions	11,836	1.24%	9,700	1.07%
Inter-bank loans and financial assets held under resale agreements	33,042	3.46%	39,581	4.35%
Fixed assets	1,994	0.21%	1,943	0.21%
Deferred income tax assets	4,767	0.50%	4,724	0.52%
Finance lease receivables	31,314	3.27%	26,270	2.88%
Other assets	13,382	1.40%	9,538	1.06%
Total assets	955,208	100.00%	908,100	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.1 Loans and advances

As of 30 June 2018, the Bank's total loans and advances amounted to RMB347,761 million, representing an increase of 10.51% as compared with the end of last year, and the total loans and advances accounted for 36.41% of the Bank's total assets, up 1.73 percentage points from the end of last year.

Distribution of loans by product types

The following table sets forth the information on the Bank's loans and advances by product types as of the dates indicated.

Unit: RMB million, except for percentages

Items	30 June 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Corporate loans	209,648	60.29%	187,111	59.46%
Discounted bills	13,062	3.76%	15,210	4.83%
Retail loans	125,051	35.95%	112,373	35.71%
Total loans and advances	347,761	100.00%	314,694	100.00%

Corporate loans

As of 30 June 2018, the Bank's total corporate loans amounted to RMB209,648 million, representing an increase of 12.04% as compared with the end of last year, and accounted for 60.29% of the total loans and advances of the Bank, representing an increase of 0.83 percentage point from the end of last year. During the first half of 2018, in view of the macroeconomic environment and regulatory requirements, the Bank reasonably adjusted its total loan amount, thoroughly adjusted its loan structure, and systemically prevented various risks, achieving simultaneous optimization of corporate loan structure and risk return.

Discounted bills

As of 30 June 2018, the Bank's total discounted bills amounted to RMB13,062 million, representing a decrease of 14.12% as compared with the end of last year. Since this year, according to the regulatory requirements and changes in the bill market, the Bank reasonably developed its discounted bill business to improve the comprehensive return thereof, after considering credit size, market yield, liquidity management and various risks as a whole.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.1 Loans and advances (Continued)

Retail loans

As of 30 June 2018, the Bank's total retail loans amounted to RMB125,051 million, representing an increase of 11.28% as compared with the end of last year, and accounted for 35.95% of total loans and advances, representing an increase of 0.24 percentage point from the end of last year.

Unit: RMB million, except for percentages

Items	30 June 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Personal residential mortgage loans	80,305	64.22%	71,558	63.68%
Personal business revolving loans	6,201	4.96%	6,483	5.77%
Others ⁽¹⁾	38,545	30.82%	34,332	30.55%
Total retail loans	125,051	100.00%	112,373	100.00%

Note: (1) Other retail loans comprised products such as personal commercial real estate loans, direct banking personal credit guarantee online loans and Micro-Linked-Loan (微聯貸).

3.3.1.2 Investments

Investments of the Bank consist of listed and non-listed securities denominated in both RMB and foreign currencies, including financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

The following table sets forth the components of the investment portfolio of the Bank according to the accounting classification:

Unit: RMB million, except for percentages

Items	30 June 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Financial assets at fair value through profit or loss	105,134	24.12%	2,695	0.64%
Financial assets at fair value through other comprehensive income	83,464	19.15%	–	–
Financial assets at amortised cost	247,274	56.73%	–	–
Available-for-sale financial assets	–	–	143,306	34.22%
Held-to-maturity financial assets	–	–	61,129	14.60%
Financial assets classified as receivables	–	–	211,647	50.54%
Investments	435,872	100%	418,777	100.00%

Note: As it is the first time the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Financial assets at fair value through profit or loss

The following table sets forth the components of financial assets at fair value through profit or loss of the Bank:

	<i>Unit: RMB million</i>	
	30 June	31 December
	2018	2017
Government bonds	195	174
Other bonds	828	1,588
Interbank certificates of deposits	2,551	933
Beneficial rights in asset management and trust plans	94,857	–
Non-guaranteed wealth management products managed by other banks	6,703	–
Total financial assets at fair value through profit or loss	105,134	2,695

Note: As it is the first time the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

As at 30 June 2018, the Bank's financial assets at fair value through profit or loss amounted to RMB105.134 billion, of which debt securities and interbank certificates of deposit accounted for 3.4%. The Bank mainly took the opportunity to allocate assets to the bonds with shorter duration and higher yield and proactively timed the market to participate in trading of government and agency bonds. As it is the first time the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, account adjustments have been made to relevant financial assets, resulting in a greater change in the account balance.

Financial assets at fair value through other comprehensive income

The following table sets forth the components of financial assets at fair value through other comprehensive income of the Bank:

	<i>Unit: RMB million</i>	
	30 June	31 December
	2018	2017
Debt securities	60,771	–
Inter-bank certificates of deposits	22,622	–
Equity securities	71	–
Total financial assets at fair value through other comprehensive income	83,464	–

Note: As it is the first time the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Financial assets at amortised cost

As at 30 June 2018, financial assets at fair value through other comprehensive income of the Bank amounted to RMB83,464 million. The PBOC kept liquidity at a reasonable and sufficient level and cut the terminal interest rate of the currency market via MLF, a reserve requirement ratio cut and other methods successively in the first half of this year. In response to the market situation, the Bank seized the opportunity to increase its investments in debt securities and interbank certificates of deposits and enhanced the investment portfolio structure in the first half of this year.

The following table sets forth the components of financial assets at amortised cost of the Bank:

	<i>Unit: RMB million</i>	
	30 June	31 December
	2018	2017
Debt securities	61,724	–
Beneficial rights in asset management and trust plans and others	192,259	–
Less: provision for impairment	(6,709)	–
Net financial assets at amortised cost	247,274	–

Note: As it is the first time the Group has adopted International Financial Reporting Standard 9 – Financial Instruments, the classification and measurement of relevant financial assets are presented in accordance with the requirements of the newly adopted standard.

As at 30 June 2018, net financial assets at amortised cost of the Bank amounted to RMB247,274 million, of which debt securities assets accounted for RMB61,724 million while beneficial rights in asset management and trust plans and others accounted for RMB192,259 million.

Carrying value and market value

All assets classified as financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income are recorded at market value or fair value.

The following table sets forth the carrying value and market value of the financial assets at amortised cost, held-to-maturity investments and loans and investments classified as receivables in the Bank's portfolio as of the dates indicated:

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Carrying value and market value (Continued)

Unit: RMB million

	30 June 2018		31 December 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortised cost	247,274	247,257	–	–
Held-to-maturity investments	–	–	61,129	59,264
Investments classified as receivables	–	–	211,647	211,539

3.3.1.3 Subsidiaries and major companies in which the Bank has shareholdings

Name	Initial investment amount	Percentage of shareholdings	Number of shares held at the end of the period (in thousands of shares)	Carrying value at the end of the period (RMB'000)	Sources of shares held	Remark
	(RMB'000)	(%)				
Jinzhai Huiyin Rural Bank Co., Ltd. ⁽¹⁾	32,800	41	32,800	32,800	Promotion	Subsidiary
Wuwei Huiyin Rural Bank Co., Ltd. ⁽²⁾	40,000	40	40,000	69,513	Promotion	Subsidiary
Huishang Bank Financial Leasing Co., Ltd.	1,020,000	54	1,620,000	1,706,820	Promotion	Subsidiary
Chery HuiYin Motor Finance Service Co., Ltd.	100,000	20	300,000	1,027,142	Promotion	Company in which the Bank has shareholdings

Notes:

- Due to the changes in the shareholding of Jinzhai Huiyin Rural Bank Co., Ltd. in May 2017, its shareholders, Anhui GuoYuan Investment Co., Ltd. (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) and Zhang Huai'an (holding 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) have been acting in concert with the Bank. Such shareholders will agree with the Bank when voting for material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd.
- Although the Bank has no absolute controlling interest in Wuwei Huiyin Rural Bank Co., Ltd., after taking into full account of various factors, the company's operating activities since its incorporation indicated that the Bank has a dominant position over operating activities of Wuwei Huiyin Rural Bank Co., Ltd. Therefore, the Bank has de facto control over it. The Bank included Wuwei Huiyin Rural Bank Co., Ltd. in its consolidated financial statements on 31 December 2014.

For further details of subsidiaries and major companies in which the Bank has shareholdings, please refer to section 3.9.6 "Business of subsidiaries and major companies in which the Bank has shareholdings" of this interim report.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.2 Liabilities

As of 30 June 2018, the total liabilities of the Bank amounted to RMB890,682 million, representing an increase of 4.92% as compared with the end of last year, which was mainly due to steady growth of customer deposits, placements from banks and other financial institutions and issuance of bonds.

Unit: RMB million, except for percentages

Items	30 June 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Loans from the central bank	24,012	2.70%	35,576	4.19%
Deposits from banks and other financial institutions	99,332	11.15%	95,815	11.28%
Placements from banks and other financial institutions	41,813	4.69%	25,428	3.00%
Derivative financial liabilities	93	0.01%	747	0.09%
Financial assets sold under repurchase agreements	42,021	4.72%	40,855	4.82%
Customer deposits	532,552	59.79%	512,808	60.40%
Taxes payable	1,053	0.12%	2,823	0.33%
Issuance of bonds	130,780	14.68%	115,180	13.57%
Other liabilities	19,026	2.14%	19,656	2.32%
Total liabilities	890,682	100.00%	848,888	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.2 Liabilities (Continued)

Customer deposits

The Bank has always been focusing on actively expanding its deposit business. In 2018, despite increasingly intense competition among its peers, the Bank managed to maintain a steady growth in its customer deposits through various forceful measures. As of 30 June 2018, the Bank's total customer deposits amounted to RMB532,552 million, representing an increase of 3.85% from the end of 2017, and accounted for 59.79% of the total liabilities of the Bank.

The following table sets forth customer deposits of the Bank by product types and customer types as of the dates indicated.

Unit: RMB million, except for percentages

Items	30 June 2018		31 December 2017	
	Balance	% of the total	Balance	% of the total
Corporate deposits				
Demand deposits	236,596	44.42%	224,344	43.75%
Time deposits	131,409	24.68%	144,566	28.19%
Subtotal	368,005	69.10%	368,910	71.94%
Retail customer deposits				
Demand deposits	52,751	9.91%	48,939	9.54%
Time deposits	87,138	16.36%	74,353	14.50%
Subtotal	139,889	26.27%	123,292	24.04%
Other deposits	24,658	4.63%	20,606	4.02%
Include: Pledged deposits	24,169	4.54%	20,025	3.90%
Total customer deposits	532,552	100.00%	512,808	100.00%

As of 30 June 2018, corporate deposits of the Bank accounted for 69.10% of total customer deposits, representing a decrease of 2.84 percentage points from the end of 2017.

The Bank's time deposits from customers to total deposits ratio has remained steady since 2018. As of 30 June 2018, the Bank's demand deposits to total customer deposits ratio was 54.33%, representing an increase of 1.04 percentage points from the end of 2017. Among them, corporate demand deposits accounted for 44.42% of the corporate deposits, representing an increase of 0.67 percentage point from the end of 2017; while retail demand deposits accounted for 9.91% of the customer deposits, representing an increase of 0.37 percentage point from the end of 2017.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.3 Equity

Items	Unit: RMB million	
	30 June 2018	31 December 2017
Share capital	11,050	11,050
Other equity instruments	5,990	5,990
Capital reserve	6,760	6,751
Surplus reserve	8,696	7,953
General risk reserve	8,118	7,723
Other comprehensive income	23	(870)
Retained earnings	21,915	19,106
Total equity attributable to shareholders of the Bank	62,552	57,703
Non-controlling interest	1,974	1,509
Total equity	64,526	59,212

3.4 LOAN QUALITY ANALYSIS

3.4.1 Distribution of loans by the five-category classification

The following table sets forth the distribution of the Bank's loans by the five-category classification as of the dates indicated:

	30 June 2018		31 December 2017	
	Amount	% of the total	Amount	% of the total
Pass	3,401.95	97.82	3,068.95	97.52
Special mention	40.22	1.16	44.99	1.43
Substandard	20.77	0.60	13.69	0.44
Doubtful	10.94	0.31	10.17	0.32
Loss	3.73	0.11	9.14	0.29
Gross loans and advances to customers	3,477.61	100.00	3,146.94	100.00
Total non-performing loans	35.44	1.02	33	1.05

Under the five-category classification system of loan supervision, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. In 2018, affected by changes of the external business environment, the Bank's asset quality faced serious challenges. By focusing on risk prevention and accelerating disposal treatment, the Bank maintained a stable quality of assets. As at the end of the Reporting Period, the NPL ratio of the Bank was 1.02%, representing a decrease of 0.03 percentage point as compared with the end of 2017.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.2 Distribution of loans and NPLs by product type

The following table sets forth the distribution of loans and NPLs by product type as of the dates indicated:

Unit: RMB100 million, except for percentages

	30 June 2018				31 December 2017			
	Amount of loans	% of the total	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total	Amount of NPLs	NPL ratio (%)
Corporate loans	2,096.48	60.29	28.36	1.35	1,871.11	59.46	26.81	1.43
Discounted bills ⁽¹⁾	130.62	3.76	-	-	152.10	4.83	-	-
Retail loans	1,250.51	35.95	7.08	0.57	1,123.73	35.71	6.19	0.55
Total loans and advances to customers	3,477.61	100.00	35.44	1.02	3,146.94	100.00	33	1.05

Note: (1) Overdue discounted bills are transferred to corporate loans.

3.4.3 Distribution of loans and NPLs by industry

The following table sets forth the distribution of loans and NPLs by industry as of the dates indicated:

Unit: RMB100 million, except for percentages

	30 June 2018				31 December 2017			
	Amount of loans	% of the total	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total	Amount of NPLs	NPL ratio (%)
Corporate loans								
Commerce and services	515.84	14.83	7.14	1.38	487.82	15.51	9.14	1.87
Manufacturing	466.98	13.43	11.34	2.43	431.28	13.70	11.91	2.76
Public utilities	583.53	16.78	0.00	0.00	487.58	15.49	0.05	0.01
Real estate	138.73	3.99	2.31	1.67	118.95	3.78	1.71	1.44
Construction	177.92	5.12	1.61	0.90	147.23	4.68	1.34	0.91
Transportation	61.15	1.76	0.39	0.64	59.24	1.88	0.30	0.51
Energy and chemical	71.66	2.06	4.00	5.58	58.89	1.87	0.00	0.00
Catering and travelling	14.84	0.43	1.49	10.04	15.36	0.49	2.05	13.35
Education and media	8.84	0.25	0.00	0.00	10.72	0.34	0.00	0.00
Financial	41.98	1.21	0.00	0.00	41.15	1.31	0.00	0.00
Others ⁽¹⁾	15.01	0.43	0.08	0.53	12.89	0.41	0.31	2.40
Discounted bills	130.62	3.76	0.00	0.00	152.10	4.83	0.00	0.00
Retail loans	1,250.51	35.95	7.08	0.57	1,123.73	35.71	6.19	0.55
Total loans and advances to customers	3,477.61	100.00	35.44	1.02	3,146.94	100.00	33.00	1.05

Note: (1) These mainly include the planting, forestry and livestock industry and the fishery industry.

In the first half of 2018, the Bank's overall credit strategy was to "practice the green concept of credit business, optimize the allocation of credit resources, actively support the development of the real economy, strengthen risk controls in key areas and key industries, and strictly adhere to the risk bottom line". The Bank guided credit resources to better serve the real economy, actively allocated credit resources to "small and micro" enterprises and developed green credit. The Bank also implemented credit limit management over real estate and industries with overcapacity, and implemented industry risk prevention and control on the "Non-green Industries" such as steel, coal and shipbuilding industries and the related steel trade and coal trade industries.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.4 Distribution of loans and NPLs by geographical segment

The following table sets forth the distribution of loans and NPLs by geographical segment as of the dates indicated:

Unit: RMB100 million, except for percentages

	30 June 2018				31 December 2017			
	Amount of loans	% of the total	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total	Amount of NPLs	NPL ratio (%)
Anhui	3,208.15	92.25	33.34	1.04	2,911.83	92.53	30.52	1.05
Jiangsu	269.46	7.75	2.10	0.78	235.11	7.47	2.48	1.01
Total loans and advances to customers	3,477.61	100.00	35.44	1.02	3,146.94	100.00	33.00	1.05

The Bank has expanded its business into Nanjing, Jiangsu Province since 2009. In the first half of 2018, total loans attributable to Jiangsu Province accounted for 7.75% of the total loans and advances to customers, while NPLs attributable to Jiangsu Province accounted for 5.93% of the total NPLs.

3.4.5 Distribution of loans and NPLs by type of collateral

The following table sets forth the distribution of loans and NPLs by type of collateral as at the dates indicated.

Unit: RMB100 million, except for percentages

	30 June 2018				31 December 2017			
	Amount of loans	% of the total	Amount of NPLs	NPL ratio (%)	Amount of loans	% of the total	Amount of NPLs	NPL ratio (%)
Collateralized loans	1,569.53	45.13	21.85	1.39	1,334.30	42.40	17.04	1.28
Pledged loans	665.27	19.13	0.01	0.00	663.64	21.09	0.35	0.05
Guaranteed loans	638.96	18.37	11.36	1.78	592.24	18.82	13.66	2.31
Unsecured loans	473.23	13.61	2.22	0.47	404.66	12.86	1.95	0.48
Discounted bills	130.62	3.76	0.00	0.00	152.10	4.83	0.00	0.00
Total loans and advances to customers	3,477.61	100.00	35.44	1.02	3,146.94	100.00	33.00	1.05

With the economic downturn, the Bank focused on the implementations of risk mitigation measures including increasing collaterals to prevent and control risk. As at the end of the Reporting Period, both NPL and NPL ratio of the Bank's collateral loans increased as compared with those at the end of 2017, which was mainly due to the change in the current overall economic environment. The Bank has adopted other risk mitigating measures such as improving its guarantee and assets preservation under litigation to handle NPL risk in a timely manner.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.6 Loans of the top 10 single borrowers

The following table sets forth the loans of the Bank's top 10 single borrowers as at the dates indicated:

Unit: RMB million, except for percentages

Top 10 borrowers	Industry that borrower belongs to	Amount of loans as of 30 June 2018	Percentage of net capital
A	Financial services	2,000	2.47
B	Public utilities	1,679	2.07
C	Construction	1,431	1.77
D	Mining	1,400	1.73
E	Public utilities	1,269	1.57
F	Public utilities	1,258	1.55
G	Public utilities	1,177	1.45
H	Public utilities	1,090	1.35
I	Public utilities	1,066	1.32
J	Commerce and services	1,000	1.22
Total		13,369	16.50

3.4.7 Distribution of loans by overdue period

The following table sets forth the distribution of loans by overdue period as at the dates indicated:

Unit: RMB million, except for percentages

	30 June 2018	31 December 2017
Total overdue customer loans and advances listed by duration		
Less than 3 months	2,181	2,637
3 to 6 months	2,113	1,249
6 to 12 months	655	975
Over 12 months	1,069	1,932
Total	6,018	6,793
Less than 3 months	36.25%	38.82%
3 to 6 months	35.10%	18.39%
6 to 12 months	10.88%	14.35%
Over 12 months	17.77%	28.44%
Total	100.00%	100.00%

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.8 Restructuring loans

During the Reporting Period, the Bank's restructured NPLs amounted to RMB147.3389 million, which included 1 corporate loan amounting to RMB80.00 million, 7 small corporate loans amounting to RMB64.7389 million and 1 retail loan amounting to RMB2.60 million. In the first half of 2018, the amount of the restructured NPLs of the Bank amounted to RMB147.3389 million, representing an increase of RMB112.2473 million as compared with the corresponding period of last year.

3.4.9 Change of allowances for loan impairment

The Bank adopts the Expected Credit Loss Model to assess impairment provision and loss on loans on a regular basis in accordance with the requirements of IFRS 9. In measuring the expected loss, the Bank uses a complex model comprising the future macroeconomic situation and the credit history of borrowers and makes relevant assumptions. After carrying out a forward-looking assessment of the expected credit loss on each loan, the Bank classifies the loans into stage one, two and three accordingly and determines the degree of impairment loss based on the degree of default. The Bank will regularly review the methodology and assumptions such as the criteria for significant increase in credit risk, the definition of credit-impaired assets, the parameters for expected credit loss measurement and forward-looking information to reduce the difference between the estimated impairment loss and the actual impairment loss on loans.

The following table sets forth the changes of the Bank's allowances for impairment on loans to customers:

	<i>Unit: RMB million</i>	
	30 June	31 December
	2018	2017
Balance at the beginning of the period	9,486	8,035
Effect of adopting IFRS 9	(464)	–
Opening balance after adopting IFRS 9	9,022	–
Allowance for the period	2,161	4,263
Discounted interest on impairment provision of reversal/unwinding of caused by the write-down of interest on impaired loans and advances	(26)	(57)
Write-offs for the period	(1,176)	(2,971)
Reversal caused by the recovery of the original write-off loans and advances	252	216
Balance at the end of the period	10,233	9,486

The Bank adhered to a stable and prudent policy in respect of making provisions. As at the end of the Reporting Period, the balance of allowances for impairment losses on loans of the Bank amounted to RMB10,233 million, representing an increase of RMB747 million as compared with the end of last year. The NPL allowance coverage ratio was 288.74%, representing an increase of 1.29% as compared with the end of last year; the allowance-to-loan ratio was 2.94%, representing a decrease of 0.07% as compared with the end of last year.

Chapter III Management Discussion and Analysis

3.5 CAPITAL ADEQUACY RATIO ANALYSIS

The Bank continued to optimize structure, enhance capital management, and meet the regulatory requirements on capital adequacy ratio set by the CBRC within the Reporting Period.

In the first half of 2018, the Bank calculated the capital adequacy ratio in accordance with the relevant requirements of the “Administrative Measures for Capital of Commercial Banks” issued by the CBRC. As of 30 June 2018, the Bank’s capital adequacy ratio was 11.97%, Tier 1 capital adequacy ratio was 9.41%, and core Tier 1 capital adequacy ratio was 8.51%.

Unit: RMB million, except for percentages

	30 June 2018	31 December 2017
Core Tier 1 capital	57,730.05	52,795.96
Including: paid-up capital	11,049.82	11,049.82
Valid portion of capital reserve	6,783.94	5,881.04
Surplus reserve and general reserve	16,813.37	15,675.83
Retained earnings	21,914.97	19,106.52
Valid portion of minority interests	1,167.95	1,082.75
Regulatory deductions for core Tier 1 Capital	(158.00)	(164.02)
Core Tier 1 capital, net of deductions	57,572.05	52,631.94
Other Tier 1 capital, net of deductions	6,145.82	6,134.46
Tier 1 capital, net of deductions	63,717.87	58,766.40
Tier 2 capital	17,294.61	16,904.82
Including: Tier 2 capital instruments and premium	9,600.00	10,000.00
Surplus loan loss provisions	7,383.16	6,616.09
Valid portion of minority interests	311.45	288.73
Total capital, net of deductions	81,012.48	75,671.22
Risk-weighted assets	676,799.92	620,978.79
Capital adequacy ratio	11.97%	12.19%
Tier 1 capital adequacy ratio	9.41%	9.46%
Core Tier 1 capital adequacy ratio	8.51%	8.48%

Chapter III Management Discussion and Analysis

3.6 SEGMENT PERFORMANCES

Operating segments

The major business of the Bank includes: corporate banking, retail banking, treasury and others. The table below sets forth the segment performance of the Bank by business category as at the periods indicated:

Unit: RMB million, except for percentages

Items	January to June 2018		January to June 2017	
	Segment profit before tax	Percentage	Segment profit before tax	Percentage
Corporate banking	2,710	52.62%	2,539	52.20%
Retail banking	686	13.32%	364	7.48%
Treasury	1,428	27.73%	1,924	39.56%
Others	326	6.33%	37	0.76%
Total	5,150	100.00%	4,864	100.00%

3.7 OTHERS

3.7.1 Off-balance sheet balances and important circumstances that may have significant impacts on the financial position and operating results of the Bank

The off-balance sheet items of the Bank include letters of guarantee, letters of credit, bank acceptance and bank commitment letters. Commitment letters include financial guarantees and other credit commitments, operating leases commitment, capital commitment, certificate government bond honor commitments and legal proceedings. Financial guarantees and other credit commitments are the main component of the bank commitment letters. Contingencies and commitments can be found in Note 40 to the financial statements of this interim report.

3.7.2 Overdue outstanding debt

As of 30 June 2018, the Bank had no overdue outstanding debt.

Chapter III Management Discussion and Analysis

3.8 IMPACTS OF CHANGES IN BUSINESS ENVIRONMENT AND MACRO POLICIES AND THE FOCUS OF THE OPERATION

1. Divergence in global economic recovery

The first half of 2018 saw divergence in global economic recovery following last year's broad recovery. In the developed world, the U.S. enjoyed relatively strong growth while Europe had lackluster growth. Emerging markets were exposed to capital outflow pressure. Boosted by various factors such as tax cuts and fiscal incentives in the previous period, the US economy strengthened in the first half of the year as both employment and inflation met targets, US bond yields rose and interest rate hikes were kept at a gradual and steady pace. Driven and supported by the economic recovery in the US and Japan as well as the decreased possibility of internal political crisis in the region, the economy continued to improve in the Eurozone, inflation was kept close to the European Central Bank's target, the job market improved steadily and the Eurozone took a wait-and-see attitude towards exiting from quantitative easing policy. The Japanese economy maintained momentum towards slow recovery, but the inflation level was far from the Bank of Japan's 2% target. Under the pressure from the "interest rate hike + balance sheet reduction" in the US and the shift of European monetary policy, the monetary policy was under pressure to make adjustments. The emerging markets suffered capital outflows, resulting in tumble in stock, bond and currency prices.

2. China's economic growth drivers are shifting faster

The ongoing supply-side structural reform has achieved positive results as the economic structure continued to be optimized. The economic structure continued to optimize in the first half of the year. In terms of industrial structure, the tertiary industry accounted for an increased proportion of GDP, representing an increase of 0.3 percentage point over the same period of the previous year, while the growth rate of added value was also 1.5 percentage points higher than that of the secondary industry. As to demand structure, the final consumption expenditure contributed 78.5% to economic growth, which was 47.1 percentage points higher than the total capital formation. With respect to new industries and new products, the added value of the strategic emerging industries in the first half of the year increased by 8.7% year-on-year, 2.0 percentage points higher than the industries above the designated size, while the output of new energy vehicles, industrial robots and integrated circuits rose significantly. In terms of new consumption, online retail sales increased by 30.1% year-on-year, which demonstrated strong growth. Green development proceeded steadily. From the perspective of energy conservation and emission reduction, the energy consumption per unit of GDP decreased by 3.2% year-on-year in the first half of the year. Momentum of organic economic growth is gaining ground more quickly despite the impacts of the gradual global QE exit and the U.S. rate hikes as well as China's financial deleveraging.

Chapter III Management Discussion and Analysis

3.8 IMPACTS OF CHANGES IN BUSINESS ENVIRONMENT AND MACRO POLICIES AND THE FOCUS OF THE OPERATION (Continued)

3. The impacts of structural deleveraging on different industries

At the first meeting of the Central Financial and Economic Affairs Commission in April, the basic idea of structural deleveraging was put forward with different requirements for different departments and debt types. Local governments and enterprises, especially state-owned enterprises, should reduce leverage as soon as possible, in an effort to gradually lower macro leverage ratio and shift from financial deleveraging to structural deleveraging in real economy. Structural deleveraging will continue to impact balance sheets of businesses in cyclical industries, and real estate-related industries such as construction, building materials, home appliances, transportation, some manufacturing industries and public utilities, which generally have high asset-liability ratio, will bear the brunt of deleveraging to a certain extent and thus face adjustments of earnings forecasts. In contrast, such TMT industries as computer, media and electronics industries as well as asset-light consumer industries such as food & beverage, textile & clothing, and pharmaceutical industries have low leverage and stable fundamentals and thus are less affected by structural deleveraging.

4. Anhui Province gained more economic growth momentum

In the first half of the year, the economy in Anhui Province was running smoothly and positively, beating expectations and making a good start for high-quality development. Anhui saw an increase of 8.9% year-on-year in the added value of industries above the designated size across the province, 2.2 percentage points higher than the national level, making it rank second in the central region. Among these industries, the added value of high-tech industries increased by 14.1%, 5.2 percentage points higher than the increase of total industrial added value, while the output value of the strategic emerging industries increased by 18.8%, 5.5 percentage points higher than the increase of total industrial output value. The rate of growth in fixed asset investment reached 11.8% across the province, higher than the 5.8 percentage points across the country, while the rate of growth in the output of new energy vehicles, lithium batteries and microcomputer equipment tended to accelerate steadily. Of this fixed asset investment, manufacturing investment and private investment increased by 18.1% and 18.7% respectively, an increase of 11.9 percentage points over the same period last year. Increase in the total retail sales of social consumer goods remained the same as compared with the same period last year, 2.6 percentage points higher than the national level, ranking third across the country. Import and export grew faster as foreign capital was used to sustain growth. Anhui experienced fast economic development rate with more strong momentum. In the second half of the year, the province will further step up five development projects covering innovation, coordination, greening, openness and sharing, which will offer a broad market space for the Bank's development.

Chapter III Management Discussion and Analysis

3.8 IMPACTS OF CHANGES IN BUSINESS ENVIRONMENT AND MACRO POLICIES AND THE FOCUS OF THE OPERATION (Continued)

5. Financial technology is challenging traditional banking business model

At present, China is facing the impacts of the new economy and new technological revolution, and the infrastructure of the traditional financial industry is undergoing profound changes. The new technological revolution featuring cloud computing, big data, Internet of Things and intelligentization has changed social life in all aspects, and affected the modes of social production and people's lifestyle. Statistics show that the business volume conducted off the counter in the banking industry last year accounted for more than 80% of the total, indicating an unprecedented challenge facing the traditional banking service model. In the first half of 2018, the integration of financial technology into traditional banks was gaining speed. The shackles on the operating areas and service outlets of small and medium-sized banks have been gradually broken, and blockchain technology and big data application have been transforming the traditional operation modes. However, while the operation mode of the traditional financial industry is being challenged, financial risks become increasingly complicated, with all kinds of new financial eco-systems, financial service models and financial products emerging in an endless stream. As a result, the traditional financial industry has entered a new revolutionary era. In this context, the Bank will face new market opportunities as well as new challenges in terms of its product system, business model and management level.

6. Strengthened regulation of financial institutions prompted transformation of the banking business

Following the de-leveraging of the financial industry in 2016 and the introduction of strengthened regulation of the banking industry in 2017, the financial industry has entered a stage of de-channelization and de-leveraging, which has already had a major impact on the banking industry. Regulatory policies have been introduced frequently since the beginning of the year, such as equity management, rectification of chaotic situations, new regulations for capital management as well as measures governing liquidity and major risk exposures, suggesting that the intensity of strengthened and stringent regulation has not decreased at all. Under the influence of both macro-prudential management and balance-sheet reduction by banks, M2 increased by 8% in June and the scale of financing from nongovernment sources increased slightly by nearly RMB600 billion year-on-year, both hitting record lows. As a result of rising capital costs, significantly contracted off-balance sheet financing, declining rate of growth in the size and profit of the banking industry as well as further narrowed interest spreads, there was a more urgent need for commercial banks to carry out transformation and upgrade, suggesting that the development of the banking industry has entered a new stage.

Chapter III Management Discussion and Analysis

3.8 IMPACTS OF CHANGES IN BUSINESS ENVIRONMENT AND MACRO POLICIES AND THE FOCUS OF THE OPERATION (Continued)

7. Prospects and Measures

Looking forward to the second half of the year, economic performance will once again vary in major economies from the perspective of the global economy, as demonstrated by the Fed's interest rate hikes and balance-sheet reduction in the US, China's trade frictions with the US and financial market turmoil in emerging economies. There will continue to be more external uncertainties, while global economic recovery will be highly variable. In the PRC, structural reforms on the supply side will continue to proceed, new driving forces will continue to increase, and economic efficiency will improve. There are various foundations and conditions for the Chinese economy to grow steadily. Meanwhile, the pressure from local debts, the sharp contraction in financing channels as a result of stringent supervision, and Sino-US trade frictions will create variables for steady economic growth. In the second half of 2018, the proactive fiscal policy will get more proactive, and the monetary policy will remain stable and neutral. These policies will focus on making up shortcomings, gathering more and more momentum, and benefiting people's livelihood to boost effective investment and maintain stable growth.

The Bank will offer a comprehensive range of services for local economic and social development as the principle of its founding. It will acquire underlying customers from innovative provinces, major industrial bases, major emerging industrial projects, major emerging industries and innovative modern industrial systems as well as modernization of five development projects for a beautiful Anhui; reserve key projects; and seize quality assets. It will hold fast to the bottom line against risks, stringently control credit risks, increase the risk control capability for various types of operational non-credit assets, proceed with innovations in systems and mechanisms, strengthen internal governance and regulated operations, and effectively improve fundamental management capabilities.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION

3.9.1 Wholesale banking business

The Bank provides a full range of wholesale financial products and services for corporations, financial institutions and government agencies, including corporate loans, corporate deposits, investment banking, transaction banking and a series of fee- and commission-based services. In particular, the Bank is committed to providing comprehensive service solutions for large corporations.

In the first half of 2018, while maintaining its advantages in the existing wholesale business, the Bank continued to grow its wholesale business in the local market of Anhui Province with customer-centric mindset, and vigorously expanded to markets beyond Anhui Province such as Nanjing in an effort to foster new sources of business growth. The Bank continued to innovate in products and services and integrate various channel resources to provide integrated financial services for customers; continued to optimize customer structure and income structure with an aim to achieve sustainable growth through the integrated business operations; strengthened risk management and control, and comprehensively enhanced the profitability of assets, thus effectively promoting the healthy and fast development of the wholesale banking business. As at the end of 2017, the Bank's market share of corporate deposits denominated in domestic and foreign currencies ranked first in Anhui Province for the tenth consecutive year. In the first half of 2018, the Bank maintained its leading position in corporate deposits within Anhui Province. Transformation-based business lines including investment banking, transaction banking and supply chain finance have all achieved rapid growth and have been widely recognized by the market.

In face of new changes in the economic and financial environment, the Bank will continue to focus on reform and innovation in the second half of 2018. The Bank will accelerate its integrated business development, further enhance its professional service capabilities, and make efforts to achieve sustainable and healthy development of the wholesale banking business.

Corporate loans

Corporate loans have always been the most important component of the Bank's loan portfolio. Currently, the main corporate loan customers of the Bank are enterprises operating their businesses in Anhui Province and Jiangsu Province. Corporate loans of the Bank mainly include working capital loans, fixed asset loans, "PPP" project loans and other corporate loans (by product type). The Bank provides working capital loans to corporate customers for their daily operations. The Bank provides fixed asset loans to satisfy corporate customers' financing needs in fixed asset investment projects including new construction, expansion, renovation and purchase of fixed assets. The Bank also provides other corporate loan products including shantytown redevelopment loans, PPP loans and supply chain financing. In the first half of 2018, in the principle of supporting the development of the real economy and based on the national macro-economic policies, the Bank further optimized the industry structure of its corporate loans by prioritizing support for industries undergoing transformation and upgrading, strategic emerging industries, traditional advantageous industries and modern services industries and limiting the growth in loans to industries with high pollution, high energy consumption and overcapacity. As at 30 June 2018, the balance of the Bank's corporate loans (including discounted bills) was RMB222,710 million, representing an increase of RMB20,389 million from the end of 2017.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale banking business (Continued)

Discounted bills

In the first half of 2018, based on the overall balance of assets size, liquidity, profitability and risks, the Bank actively responded to the changes in the business environment, scientifically followed the pace of bills business development, enhanced the profitability of bills business, and facilitated the full compliance and healthy development of bills business. As of 30 June 2018, the Bank's balance of discounted bills amounted to RMB13,062 million, representing a decrease of RMB432 million as compared with the same period last year.

Corporate deposits

The Bank provides corporate customers with corporate deposits products and services, including corporate demand deposits, corporate time deposits, corporate call deposits, corporate agreement deposits, negotiated deposits, corporate structured deposits, corporate intelligent call deposits and corporate intelligent time deposits. The Bank actively addressed the challenges brought by interest rate liberalization. While focusing on improving its performance in corporate deposits, the Bank continued to enhance its competitiveness of corporate deposits market and expand the sources of low-cost corporate deposits, thus further improving the structure of corporate deposits. The Bank has established a leading market position in terms of corporate deposits in Anhui Province. According to the data of the PBOC Hefei Central Sub-branch, the Bank ranked first in the amount of corporate deposits in Anhui Province for ten consecutive years from 2008 to 2017.

Transaction banking

Leveraging the advantages of its modern treasury and financial service platform, the Bank's cash management business has developed a series of integrated treasury service solutions covering account management, collection and payment management, liquidity management, investment and finance management, risk management and information services to meet the ever-changing corporate wealth management needs. The reputation and influence of the cash management brand "Zhuo Yue e+ (卓越e+)" continued to improve. In November 2017, the Bank was awarded the "Trading Bank with Highest Growth Potential" and the "Best Bank for Cash Management" under China Treasury Management Awards.

In the first half of 2018, with the aim of building a bank that provides first-class cash management services, the Bank strived to perfect the construction of its cash management product system, and comprehensively improved its cash management services, in an effort to provide comprehensive, integrated and one-stop treasury management services to corporate customers. In the first half of this year, the transaction volume of cash management business of the Bank reached RMB800 billion, representing an increase of 33.33% over the same period of last year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale banking business (Continued)

Investment banking business

To promote its business transformation, the Bank focuses on developing investment banking services such as lead underwriting of debt financing instruments, asset securitization, M&A financing, structural financing, investment and financing consulting. The Bank continually enriches its investment banking products by launching innovative products such as asset securitization and debt financing plans.

The Bank was among the first batch of banks in China to obtain type B independent lead underwriting qualification in February 2016. In November 2017, it secured type A lead underwriting qualification from the National Association of Financial Market Institutional Investors. As at the end of June 2018, the Bank completed the registration of nine debt financing instruments, with a total registered amount of RMB22.65 billion; and completed the issuance of 12 debt financing instruments with an underwriting amount of RMB3.82 billion. At present, the Bank's lead underwriting business has been expanded to areas with service outlets, marking an important step of the Bank in serving regional economic development and direct financing of enterprises.

In 2018, under the coordination of the head office and branches, the Bank continued to make breakthroughs in the asset securitization business-completing lead underwriting of multiple corporate asset securitization deals and successfully launching the first supply chain asset securitization product of the province on the Beijing Financial Assets Exchange. The Bank also saw rapid growth in its debt financing plan business and successfully issued the first poverty alleviation debt financing plan in China.

International business

In 2018, the Bank continued to strengthen its support for the Belt and Road Initiative and RMB internationalization with a focus on providing financial support for equipment manufacturing, high-tech and other enterprises that are "going global", and stepped up efforts in promoting key off-balance sheet products with low capital consumption such as letters of credit, letters of guarantee and derivative products. The Bank continued to innovate in cross-border financing, cross-border RMB settlement, foreign exchange bond investment, US dollar debt issuance, international factoring and inter-bank agency and cooperation, and explored the research and practical application of financial service solutions of transaction banking, so as to constantly improve the integrated financial services of the Bank.

The Bank always insists on being customer-based, and constantly expands its international market share. As at the end of June 2018, the Bank had a total of 4,834 basic trade finance customers, 1,465 of which were active trade finance customers, representing an increase of 262 customers as compared with the corresponding period of last year. With a growing customer base in international business, the Bank's customer base continues to expand.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale banking business (Continued)

International business (Continued)

As at the end of June 2018, the Bank's total domestic and foreign currency receipts and payments amounted to US\$3.268 billion (excluding Nanjing), representing an increase of 13.97% over the same period of last year, making the Bank rank fourth among 29 financial institutions in the province. International settlement amounted to US\$5.14 billion, representing a year-on-year increase of 15.84%, suggesting that the Bank's position as a mainstream cross-border clearing bank in Anhui Province was further consolidated.

The Bank actively put into practice its spirit to serve the real economy in the first half of 2018 by increasing credit supply, so that the cumulative commitment of on- and off-balance sheet trade financing across the Bank was equivalent to approximately RMB38.53 billion, representing an increase of 43.97% over the same period of last year. The cumulative transaction volume of foreign exchange funds amounted to US\$10.4 billion, representing a year-on-year increase of 44.36%. The cumulative contracted value of the derivatives business was US\$4.065 billion. Foreign currency bond investment accumulated to US\$40 million. The Bank kept diversifying foreign exchange products so that the transaction volume was expanding continuously.

The Bank continued to diversify the transaction banking product portfolio, and launched medium- and long-term public bonds denominated in US dollars, short-term private bonds denominated in US dollars, international factoring, re-negotiating non-recourse financing and inter-bank supply chain financing in line with market demand, so that a revenue of RMB102 million was generated from the green intermediary business, representing a year-on-year increase of 29.08%, suggesting that the income sources of the intermediary business were increasingly diversified.

In respect of agent bank business, the Bank further tapped its potential in satisfying customer demands and business development needs by continuously expanding and improving its overseas agency networks and making full use of its agency business resources to provide strong support for cross-border integrated finance. In the first half of 2018, the Bank carried out in-depth cooperation with the members of the China-Russia Financial Alliance and the China-Mongolia Financial Alliance and established business presence with new strategies in line with the Belt and Road Initiative. The Bank successfully completed the grant of a RMB250 million cross-border RMB interbank syndicated loan to the Trade and Development Bank of Mongolia, the largest commercial bank in Mongolia, making the Bank the first financial institution in the Anhui Province that successfully handled the cross-border RMB interbank lending business. As at the end of June 2018, the Bank had established agency partnership with 676 banks in 64 countries and regions. In respect of cross-border clearing channel construction, the Bank provides clearing services in 8 major currencies and has 13 overseas clearing accounts. The total number of foreign exchange counterparties reached 84, which comprised all of foreign exchange counterparties in Hong Kong, Macao and Taiwan.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business

Business overview

In the first half of 2018, the Bank strengthened market expansion, innovated in financial products and services, and accelerated business channels and team building. On the basis of consolidating the expansion of service outlet capacity, the Bank comprehensively summarized its management measures and workflows for retail banking business. The Bank optimized the multi-tiered service management system catering for different retail customer groups, built up a wealth management system encompassing non-cash wealth management, general wealth management and premier wealth management, pushed forward the establishment of an inclusive financial system, and proactively explored development modes of financial technology. These efforts have helped the Bank further lay a solid foundation for retail business development to improve its performance indicators in retail business at a faster pace and enhance its competitiveness in retail business.

In the first half of 2018, the Bank's customer structure was further optimized as its active customer base maintained a steady growth, with the number of medium-to-high-value customers grew faster than others. The wealth management business maintained a rapid growth with the increment recorded in the first half of 2018 mushrooming year on year. The penetration of wealth management products (WMPs) continued to grow, and the sales of government bonds were in a leading position in Anhui Province. The size of retail customer deposits grew steadily. The market share of retail deposits continued to grow and ranked second in Anhui Province in terms of increment, and the scale of retail consumption loan business continued to grow, leading to further increase in market share.

In the second half of 2018, with changes in the external business environment such as interest rate liberalization, financial technology and stringent regulation, the Bank's retail business will face greater pressure. While improving its retail business philosophy, management level, innovation capacity and technology strength, the Bank will expand its talent pool for retail business, enrich the functions of its service outlets, broaden the wealth management product line, improve service quality and strengthen data analysis capacity building. The Bank will continue to consolidate the groundwork for improving the sales capacity of service outlets, gradually apply the improved sales capacity of service outlets to the Bank's inclusive financial outlets including Huinong sub-branches and Huimin sub-branches, speed up the launch of retail banking products and functions, accelerate the construction of personal mobile financial portals and improve the wealth management system, so as to further promote the transformation and upgrading of its retail business, maintain the rapid and healthy development for various retail business lines, and comprehensively improve the overall competitiveness of and contribution of retail business.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Wealth management business

The Bank's personal wealth management business primarily includes personal wealth management services, commission sale of funds, insurance brokerage business, commission sale of government bonds and commission sale of precious metals. In the first half of 2018, the Bank's wealth management business (excluding direct banking business) amounted to RMB98.563 billion, representing an increase of RMB32.285 billion or 48.71% as compared with the corresponding period of last year. The Bank raised RMB102.181 billion for its personal wealth management business, representing a year-on-year increase of 30.24%. Penetration of personal wealth management products reached RMB93.176 billion, representing a year-on-year increase of 54.03%. In the first half of 2018, the intermediary business income from the Bank's personal wealth management business amounted to RMB236.7038 million.

Bank card business

One card

In the first half of 2018, based on the existing debit card products, the Bank actively adapted to the transformation and upgrading of the retail business, continued to apply the customer-centred business philosophy and closely focused on the payment and settlement needs of retail customers by actively carrying out the innovation of the debit card products business; integrating the online and offline business to further diversify product portfolio; carrying out various types of marketing activities for bank cards; continuing to develop the habit of using bank cards among customers; and continuously improving customer stickiness to boost the rapid growth of the debit card business across the Bank. As at the end of June 2018, 16.07 million debit cards were issued in total, of which 12.42 million were valid cards, accounting for 77.29%. The deposit balances on debit cards were RMB73.7 billion, and the average deposit on debit cards was RMB5,900. A total of 68 types of Huangshan debit cards were issued.

Retail loans

In the first half of 2018, the Bank strengthened the planning of its personal consumption loan business, facilitated the establishment of a customer-centered consumption loan product system, accelerated the development of online banking business, put greater efforts into channel integration and continuously improved its service quality, thereby steadily scaling up its personal consumption loan business. In the first half of 2018, the Bank's total retail loans amounted to RMB125.051 billion, representing an increase of RMB12.678 billion or 11.28% as compared with the end of 2017.

Retail customer deposits

In the first half of 2018, in the face of the complex and unstable economic and financial situation and the progressive change in people's perception of consumption and wealth management, the Bank, focusing on customers' contextual needs for services such as wealth management, payment settlement and consumer finance, continuously innovated in products and mechanisms to improve its service standards by further improving service capacity and the construction of an inclusive financial system, thus achieving steady growth in customer deposits. In the first half of 2018, the Bank's total retail deposits amounted to RMB139,889 billion, representing an increase of RMB16.597 billion or 13.46%.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.3 Financial market business

Business strategies

In the first half of 2018, the overall Chinese economy maintained a steady and positive growth momentum. In view of escalating trade tensions between China and the US and the continuous decline in money supply M2, the PBOC lowered the reserve requirement ratio twice in the first half of 2018, ensuring reasonable and sufficient market liquidity. In terms of bond investment, the Bank continued to adopt aggressive yet prudent investment strategies. Firstly, supported by good timing and progress of bond investment, it made greater efforts to invest in low-risk bonds and further diversified its investment portfolios. Secondly, it modified its investment structure and rationally extended the duration of investment portfolios under controllable risk conditions. Thirdly, it actively expanded its customer base and increased intermediary business income through business collaboration and innovation. As at the end of June 2018, the average duration of RMB bond investment portfolios was 2.16 years; the rate of return on investment portfolios was 4.32%; the yield after taking account of the tax rebate on the interest income of treasury bonds, railway bonds and local government bonds was 5.02%.

Business expansion

In the first half of 2018, the Bank closely followed regulatory guidelines, focused on strengthening credit risk control and management, and facilitated sustainable and sound business growth by expanding bond trading business, diversifying new business activities and other ways. Upon obtaining the qualification of international precious metal trading in 2018, the Bank can participate in London Gold and London Silver transactions, widen its scope of precious metal business activities and transactions, and access more hedging and arbitrage instruments. It also hedged market volatility risks effectively by strengthening bond trading and reinforced bond underwriting business through innovative models such as primary and secondary market collaboration and synergized bond and lending operations to increase intermediary business income. As at the end of June 2018, the Bank's total investment amounted to RMB435.872 billion, representing an increase of 4.08% as compared with that of 2017.

3.9.4 Asset management business

In the first half of 2018, with the adjustment of tax policy and the release of the Guiding Opinions on Regulating Asset Management Business of Financial Institutions, the Bank's asset management business grew steadily and its business management further refined. In respect of business scale, in the first half of 2018, supported by two major product systems, namely "Ben Li Ying" (本利盈) and "Chuang Ying" (創贏), the balance of the Bank's wealth management products at the end of the Reporting Period amounted to RMB109.334 billion. In terms of customer system, in the first half of 2018, the Bank further increased its support for retail customers and optimized customer structure and distribution channels. The balance of personal wealth management products reached RMB93.177 billion, representing an increase of 54% over the same period of last year and accounting for 85% of the total.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Fund custody business

In the first half of 2018, the Bank continued to strengthen business innovation in custody business and enrich product types in this regard. As such, its custody business maintained steady growth in size and revenue. In January 2014, with the strong support of the Bank's top executives and with the approval of the CSRC and CBRC, the Bank obtained the qualification for custody of securities investment funds and formally launched custody services for funds, trusts, securities, public offerings, private placements, bank wealth management and other related products, marking a milestone in the Bank's provision of integrated banking services. In September 2016, the Bank made another breakthrough by obtaining the qualification for custody of insurance assets from the CIRC, thus expanding the scope of its asset-custody products. Since 2018, the Bank has been constantly strengthening interbank business development and innovating in custody products to boost intermediary business income.

As at 30 June 2018, the balance of assets under custody was RMB628.423 billion, representing a year-on-year increase of RMB116.455 billion or 22.75%; the number of custody products was 689, representing an increase of 42 or 6.49% over the end of last year.

3.9.6 Distribution channels

The Bank provides products and services through a variety of distribution channels. The Bank's distribution channels are mainly divided into physical distribution channels and electronic banking channels.

Physical distribution channels

As at 30 June 2018, the Bank had built a total of 669 self-service banking outlets and put into operation a total of 2,663 sets of self-service equipment, including 584 automatic teller machines, 1,138 cash recycling machines, 617 self-service terminals and 324 intelligent self-service terminals (including self-service card issuing machines).

Electronic banking channels

The Bank places great emphasis on improving and expanding electronic banking channels, including online banking and mobile banking, which can effectively relieve the pressure on service outlets. In the first half of 2018, the trading account transactions via retail electronic channels accounted for 93.16% of the total, representing an increase of 4.77 percentage points as compared with the end of 2017; and the trading account transactions via corporate electronic channels accounted for 82.69%, representing an increase of 19.07 percentage points as compared with the end of 2017.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.6 Distribution channels (Continued)

Online banking

In the first half of 2018, the Bank's personal online banking business continued to grow rapidly, with a substantial increase in customer base and growing activeness in customer transactions. As at 30 June 2018, the Bank's total number of personal online banking customers amounted to 3,340,100; the trading account transactions via personal online banking accounted for 68.30% of the total, representing an increase of 10.17 percentage points over last year. In the first half of 2018, the number of personal online banking transactions amounted to 129,099,700, representing a year-on-year increase of 29.66%; among that, the number of online payment transactions was 55,013,800, representing a year-on-year increase of 110.54%; the amount of online payment transactions totaled RMB30.671 billion, representing a year-on-year increase of 93.47%. In recent years, the Bank enjoyed comprehensive and rapid development of its corporate online banking business, with an increasingly solid customer base and growing channel efficiency. As such, online banking has become an efficient operating channel connecting customers in all areas of corporate business, and is oriented towards customer management, value exploration, cross-selling and industry expansion. In the first half of 2018, the Bank recorded 26,934,900 corporate online banking transactions, representing a year-on-year increase of 16.93%; the amount of enterprise online banking transactions reached RMB971.991 billion, representing a year-on-year increase of 3.70%.

Mobile banking

In the first half of 2018, the Bank launched an upgraded personal mobile banking app (version 4.0) to improve customer relationship management and user experience, with a view to improving the quality of customers' financial life. As at 30 June 2018, the total number of mobile banking customers reached 2,685,900. During the Reporting Period, the number of mobile banking transactions reached 44,352,900, representing a year-on-year increase of 36.21%, and the transaction amount totaled RMB178.266 billion, representing a year-on-year increase of 81.23%.

Direct banking

As at the end of June 2018, the total number of direct banking customers of the Bank reached 14.5 million and the total penetration of direct banking products reached RMB14 billion, with the total amount of wealth management product transactions exceeding RMB140 billion. In respect of product system construction, the Bank simultaneously advanced the three product lines of "Hui Chang You Cai (徽常有财)", namely wealth management services, account and payment settlement services, and Internet credit services, and launched a series of innovative and differentiated products and services such as Xiang Hua (享花), Tianji Intelligent Investment (天機智投) and third-party fund custody. In respect of marketing development and brand building, "Hui Chang You Cai (徽常有财)" used Internet thinking to expand the market through network integrated marketing, institutional cooperation marketing and precision marketing targeting specific customer groups. "Hui Chang You Cai (徽常有财)" ranked third in the 2017 China Direct Bank Ranking, winning against a great many large state-owned banks and national joint-stock commercial banks.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.7 Business of subsidiaries and major companies in which the Bank has shareholdings

Subsidiaries

Huishang Bank Financial Leasing Co., Ltd.

Incorporated in Hefei with a registered capital of RMB2 billion, Huishang Bank Financial Leasing Co., Ltd. ("Huishang Bank Financial Leasing"), a financial leasing company under the national banking system approved by the CBRC, officially opened for business on 30 April 2015. Huishang Bank Financial Leasing was jointly funded and established by the Bank, Anhui Foreign Economic Construction (Group) Co., Ltd. and CTCE Group Materials Industry & Trade Co., Ltd. The Bank contributed RMB1,020 million to the registered capital of Huishang Bank Financial Leasing, accounting for 51% of the total. During the Reporting Period, the Bank successfully increased the registered capital of Huishang Bank Financial Leasing to RMB3 billion, 1.62 billion shares or 54% of which is held by the Bank.

The main business scope of Huishang Bank Financial Leasing includes: (1) financial leasing; (2) handling financial lease assets as transferor or transferee; (3) fixed-income securities investment; (4) receiving lease deposits from lessees; (5) absorbing time deposits with a term of three months or more from non-banking shareholders; (6) inter-bank lending; (7) borrowing from financial institutions; (8) offshore borrowing; (9) sale and disposal of leased properties; (10) economic consultation (carrying out business activities within the business scope approved by the CBRC Anhui Office); (11) other businesses approved by the CBRC.

Since its opening, Huishang Bank Financial Leasing has been rooted in Anhui and oriented towards the national market under the philosophy of "setting an example, laying foundation, pursuing customers and innovating in model". While expanding its business scope and customer resources, Huishang Bank Financial Leasing provides customers with professional and integrated financial leasing services. It adheres to the concepts of sound operation and sustainable development and strives to strike a balance among business scale, growth rate, quality and efficiency. While upholding the philosophy of prudent risk management by improving risk management to enhance the ability to resist risks, it vigorously promotes business expansion and adjusts the structures of customers, products, businesses and income. Huishang Bank Financial Leasing develops its resource advantages and improves its core competitiveness to create sustainable competitive edge for its mid- and long-term development.

Jinzhai Huiyin Rural Bank Co., Ltd.

Incorporated in Jinzhai County of Lu'an City with a registered capital of RMB80 million, Jinzhai Huiyin Rural Bank Co., Ltd. ("Jinzhai Huiyin") officially opened for business on 28 June 2013. Jinzhai Huiyin was jointly established by the Bank and Anhui Guoyuan Investment Co., Ltd. along with other enterprises and individuals. The Bank contributed RMB32.80 million to the registered capital of Jinzhai Huiyin, accounting for 41% of the total. Its principal business includes: (1) absorbing deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) interbank lending; (6) banking card business; (7) agency for issuance, agency for honoring and underwriting of government bonds; (8) agency collection and payment and insurance brokerage business; (9) other businesses approved by the banking regulatory authority under the State Council.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.7 Business of subsidiaries and major companies in which the Bank has shareholdings (Continued)

Subsidiaries (Continued)

Jinzhai Huiyin Rural Bank Co., Ltd. (Continued)

Since its opening, with the support of all shareholders, Jinzhai Huiyin has been rooted in Jinzhai County to serve “agriculture, rural areas and farmers” with a mission to promote comprehensive financial reform in the rural areas of Jinzhai and accelerate the economic and social development there, which is the original intention and objective of its establishment. With great efforts put in agricultural credit, deposit growth, channel building, and risk prevention and control, Jinzhai Huiyin has yielded good results in business development and received recognition from customers, local governments and regulatory authorities. In the first half of 2018, Jinzhai Huiyin officially launched mobile banking and WeChat banking services, thus enriching its settlement channels and improving customer satisfaction.

Wuwei Huiyin Rural Bank Co., Ltd.

Incorporated in Wuwei County of Wuhu City with a registered capital of RMB100 million, Wuwei Huiyin Rural Bank Co., Ltd. (“Wuwei Huiyin”) opened for business on 8 August 2010. The Bank contributed RMB40 million to its registered capital, accounting for 40% of the total. Other major shareholders of Wuwei Huiyin are local enterprises and individuals. Its principal business includes: (1) absorbing deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) interbank lending; (6) banking card business; (7) agency for issuance, agency for honoring and underwriting of government bonds; (8) agency collection and payment and insurance brokerage business; (9) other businesses approved by the banking regulatory authority under the State Council.

Since its opening, Wuwei Huiyin has been adhering to the business philosophy of the Bank and the Scientific Outlook on Development. Based in Wuwei and focusing on villages and towns, it strongly supports the development of “agriculture, rural areas and farmers”, individual businesses and small and medium-sized enterprises. Following the business philosophy of “being close to villages and towns, serving agriculture, rural areas and farmers”, Wuwei Huiyin gives full play to the brand advantage of its parent bank to continuously innovate in the varieties and forms of loans and the related operation procedures. In doing so, Wuwei Huiyin provides flexible, high-quality and efficient financial services tailored for rural and agricultural customers in support of economic development in county areas. In an effort to provide financial support for the production and development of farmers, it also endeavors to extend its services to wider rural areas. In the first half of 2018, based on the county and rural revival strategies, Wuwei Huiyin further confirmed the development direction of supporting agriculture and small customers, strengthened institutional construction, and improved internal control management while cooperating with the relevant agencies to build up a person credit reporting system, thus improving the availability and convenience of rural basic financial services.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.7 Business of subsidiaries and major companies in which the Bank has shareholdings (Continued)

Major companies in which the Bank has shareholdings

Chery Huiyin Motor Finance Service Co., Ltd.

Established on 13 April 2009, Chery Huiyin Motor Finance Service Co., Ltd. (“Chery Huiyin”) is the first independently branded auto finance company in China. It was jointly invested and established by the Bank and Chery Automobile Co., Ltd. (“Chery Automobile”). Chery Huiyin was incorporated in Wuhu City with a registered capital of RMB1.5 billion. It is owned as to 20% by the Bank (representing 300 million shares), 49% by Chery Automobile (representing 735 million shares), and 31% by Chery Holdings Co., Ltd. (representing 465 million shares).

Approved by the CBRC, Chery Huiyin’s principal business includes: (1) accepting time deposits with a term of three months or more from domestic shareholders; (2) accepting loan deposits for purchase of vehicles from auto dealers and car rental deposits from lessees; (3) issuing financial bonds with approval; (4) interbank lending; (5) borrowing from financial institutions; (6) providing auto loans; (7) providing loans to auto dealers for their purchases of vehicles and operating equipment, including showroom construction loans, spare parts loans and equipment maintenance loans; (8) providing auto finance lease services (excluding leaseback); (9) selling or repurchasing auto loan receivables and auto finance lease receivables to or from financial institutions; (10) sale and disposal of rental cars with residual value; (11) providing consulting and agency services related to auto financing activities; (12) equity investment in financial institutions relating to auto finance business, subject to approval.

3.10 RISK MANAGEMENT

In the first half of 2018, the banking industry was faced with more complicated risks and challenges under the complex and volatile domestic and international economic environments where various risks were intertwined. With a risk appetite featuring “prudence, rationality and soundness”, the Bank continued to improve its comprehensive risk management system and practice the prudent operation philosophy in the Year of Quality Improvement, in a drive to ensure the prudence of business development and the objectivity of asset classification and maintain sufficient risk provisions and capital adequacy. Subject to both external regulation and internal norms, the Bank upheld the philosophy of rational management and controlled major risks in a scientific and effective manner while insisting on “dual growth drivers”, i.e. business development and financial innovation. In the principle of stable operation, the Bank built a comprehensive, full-process risk management system covering all employees and strived to realize coordinated development that balances scale, quality and efficiency on the premise that risks are under control, so as to realize the value of comprehensive risk management and the strategic objective of transformation and upgrading of the Bank.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.1 Credit risk management

Credit risk refers to the risk of loss due to the default of the debtors or counterparties or the reduction in their credit ratings and performance capabilities. Credit risk is the major risk currently faced by the Bank, mainly involving on- and off-balance credit risk exposures in relation to loans, interbank lending, funds, guarantees, commitments, etc.

In the first half of 2018, based on comprehensive risk management, the Bank pursued effective results in improving credit risk management. The Bank refined its multi-level risk policy system by developing its risk appetite, risk limits, credit policy and other significant mechanisms according to its comprehensive risk management measures, and improved assessment measures for annual asset quality rating and impairment provisioning, with a view to achieving coordination between policies and assessment measures. The Bank strictly controlled customer access, strengthened credit rating management, standardized credit rating, formulated an annual credit rating plan with a specific work schedule and intensified spot checks; strengthened its risk alert and exit mechanism, and conducted key risk screening on loans to sensitive industries such as steel, coal and real estate; strengthened its risk control over key areas such as small businesses, government financing platforms, real estate, overcapacity and emerging businesses; guarded against the spread of external risks such as guarantee circles and trade financing; strictly implemented national industrial policies for industries with overcapacity and environmental protection policies; continued to strengthen its ability to design risk mitigation measures for credit approval, improve credit delivery methods and optimize credit structure; carried out comprehensive risk screening and on-site inspection and supervision with a focus on maintaining stable asset quality to ensure the effective implementation of risk control policies; strengthened follow-up management of loans with major risks, set up a watch list of debtors for dynamic management, and formulated solutions for disposal of loans with potential risks on a one-customer-one-policy basis such as collection, write-off, restructuring or transfer of the loans, so as to resolve potential risks by disposing of non-performing assets through different channels and means and revitalize existing assets. During the Reporting Period, the Bank's NPL balance increased somewhat, yet its asset quality structure was effectively optimized through a number of measures including reducing old loans and controlling new loans. Please refer to Section 3.4 "Loan Quality Analysis" in this report for the breakdown of loans.

3.10.2 Market risk management

Market risk refers to the risk of on- or off-balance-sheet loss caused by changes in interest rates, foreign exchange rates and other market factors. The market risk management of the Bank covers exchange rate risk and interest risk of trading accounts.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.2 Market risk management (Continued)

In the first half of 2018, in the face of complex and volatile external environment, the Bank focused on improving market risk management tools, optimizing market risk management processes, and promoting daily market risk management in an all-round manner. To improve the market risk monitoring mechanism, the Bank measured market risk using a full range of methods, including gap analysis, duration analysis, foreign exchange exposure analysis, sensitivity analysis, scenario analysis, risk value analysis, stress testing and back testing. The Bank effectively promoted the management of market risk limits, implemented a ten-day reporting system for the implementation of such limits, and conducted dynamic management and adjustment of some risk limit indicators. To improve its foresight and initiative in market risk management, the Bank carried out market risk stress tests to assess the potential losses or damage to the Bank under stress scenarios and took risk mitigation measures in advance accordingly. The Bank continued to optimize and perfect its market risk management tools and took the opportunity of transforming its capital management system to improve the yield curves and measurement models of relevant products. Adhering to process optimization and technological innovation and under the comprehensive risk management framework, the Bank fully identified, accurately measured and continuously monitored market risks in various business lines to control market risks within a tolerable range.

3.10.3 Operational risk management

Operational risk refers to the risk of loss arising from flawed or problematic internal procedures, personnel, IT systems and external events. The operational risks faced by the Bank mainly comprise external fraud, internal fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, business interruption, information system failures and execution, delivery and process management.

With respect to operational risk management, the Bank continued to refine its operational risk management system and strengthen operational risk management. The Bank continued to promote the construction of an operational risk management system, strengthened the development of three major instruments for operational risk management, improved the key operational risk indicators, and refined the information system for operational risk management to improve the informatization of operational risk management. The Bank conducted multi-dimensional risk monitoring over institutions, business activities and customers for routine monitoring of operational risk in key areas such as credit business; made greater use of the external data such as the credit information of the PBOC, sorted out a list of customers with potential risks identified by other financial institutions, and carried out risk screening and subsequent countermeasures to prevent risk contagion; regularly collected major operational risk cases caused by presidents of sub-branches in and out of the Bank and gathered data on operational risk losses to develop key risk indicators and incorporate them into the monitoring system; strengthened IT risk management and, in coordination with the Bank's core system upgrade and transformation, carried out emergency drills for interruption of key information systems and business continuity management, with a view to playing the role of the second line of defense against information technology risk.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.4 Liquidity risk management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers' needs for repayment of liabilities due, new loans and reasonable financing, or unable to satisfy these needs at reasonable cost. The Risk Management Committee under the Board of Directors of the Bank and the Asset and Liability Management Committee and the Risk and Internal Control Management Committee under the senior management are jointly responsible for developing policies and strategies for overall management of liquidity risk.

The Bank's liquidity risk management aims to ensure that the Bank has sufficient funds to meet expected and unexpected capital requirements (including loan growth, deposit withdrawals, debt maturity, and changes in off-balance sheet irrevocable commitments) in a normal operating environment or under stress, so as to create a stable liquidity environment for continuing operations and promote positive interaction between liquidity management and business development. The Bank makes reasonable adjustments to the size and structure of assets and liabilities based on changes in market conditions and business development needs. By doing so, the Bank strives to pursue profit growth and value growth under the premise of ensuring liquidity, so as to strike a balance among the "liquidity, safety and profitability" of the Bank's funds.

For liquidity risk management, the Bank adheres to the principles of soundness, prudence and rationality and emphasizes risk prevention and mitigation while promoting business development and profit growth. The Bank stresses the importance of "ensuring adequate liquidity" and uses flexible approaches to manage and control the percentage of liquidity asset portfolio with the highest efficiency. According to its own characteristics and external market environment, the Bank has developed liquidity stress scenarios to ensure that there will be no liquidity risk in any stress scenarios or within the prescribed shortest survival period. Meanwhile, the Bank formulates contingency plans to prevent potential liquidity crisis and takes effective emergency measures to control the spread of risks under liquidity crisis scenarios.

With close monitoring of macroeconomic regulatory policies and capital market conditions, the Bank dynamically adjusts its liquidity management strategies and pace of capital operation according to its assets and liabilities business development and liquidity situation, thus effectively coping with the impact of periodic and seasonal factors on the Bank's liquidity and improving the Bank's ability to resist liquidity risk. As at the end of the Reporting Period, the liquidity coverage ratio of the Bank was 106.22%, its qualified quality liquidity assets amounted to RMB89.145 billion and its net cash outflow in the next 30 days was RMB83.924 billion.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.5 Interest rate risk management

Interest rate risk refers to the risk of fluctuation in interest rates which adversely affects the financial position of the Bank. Interest rate risk of the Bank primarily arises from the mismatch of maturity dates or re-pricing term structure of its business portfolio. Term structure mismatch may result in the Bank's net interest income being affected by changes in the prevailing interest rates. In addition, different pricing benchmarks for different products may also expose assets and liabilities within the same re-pricing period to interest rate risk. Currently, the Bank mainly assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the durations of its business portfolio based on its assessment of potential changes in the interest rate environment.

The Bank's financial assets and liabilities are mainly denominated in RMB. As the benchmark interest rates for RMB deposits and loans are determined by the PBOC, the Bank follows the interest rate policies issued by the PBOC when carrying out deposit taking and lending activities.

In the first half of 2018, the Bank deepened its strategic transformation, proactively coped with interest rate liberalization and increased its efforts in optimizing asset-liability structure and customer structure. First, the Bank optimized its loan structure to accelerate the development of its retail business and services for small and micro enterprises. Second, the Bank strengthened loan pricing management in an effort to improve its risk pricing capability and return on loans. Third, the Bank promoted the rapid development of its intermediary business, optimized its income structure and reduced its dependence on interest spread between deposits and loans. Fourth, the Bank strengthened the analysis of customers' comprehensive contribution using data from management accounting, thus effectively improving its pricing management.

3.10.6 Exchange rate risk management

Exchange rate risk refers to the risk of loss of the Bank's earnings arising from adverse changes in exchange rate in the case of overbought or oversold spot or forward positions in a particular foreign currency or duration mismatch of non-RMB denominated assets and liabilities. The Bank's foreign currency assets and liabilities are mainly denominated in US dollars, while the rest are denominated in euro, Hong Kong dollars and Japanese yen.

The Bank measures its exchange rate risk through qualitative and quantitative analyses. The main analysis methods include gap analysis, duration analysis, exposure analysis, sensitivity analysis, scenario analysis, VAR analysis, stress testing and back testing. In order to maintain its exchange rate risk within an acceptable range, the Bank implements stringent limit management measures, mainly including trading limits, risk limits, foreign exposure limits and stop loss limits.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.6 Exchange rate risk management (Continued)

The Bank's spot and forward foreign exchange transactions are mostly conducted on behalf of customers through "back-to-back" settlements that avoid exchange rate risk to a large extent. Under the new norm of bilateral fluctuations in RMB exchange rates, the Bank holds reasonable proprietary positions according to its limit management requirements and within the limit of combined exposure positions approved by the State Administration of Foreign Exchange. In addition, the Bank proactively uses derivatives to prevent the risk of exchange rate fluctuations.

3.10.7 Reputational risk management

Reputational risk refers to the risk of the Bank being negatively evaluated by stakeholders due to the Bank's operations, management and other activities or external events.

Reputational risk management, as an important part of the Bank's corporate governance and comprehensive risk management systems, covers all behaviors, business activities and business areas of the Bank and its subsidiaries. The Bank has developed reputational risk management measures and requirements to actively and effectively prevent reputational risk and cope with reputation events, with a view to minimizing the resulting losses and negative impacts. In the process of reputational risk management, the Bank prioritizes risk prevention and focuses on monitoring, analysis and early warning of public opinions in its daily operation, which has achieved good results. In addition, the Bank carries out external publicity and has established an effective management system which enables it to quickly resolve any misunderstanding or misinterpretation of information. Meanwhile, the Bank actively participates in social welfare undertakings and public activities to live up to its corporate social responsibility, in an effort to build a sound corporate image.

3.10.8 Compliance risk management

Compliance risk refers to the risk that a commercial bank may be subject to legal sanctions, regulatory punishments, major financial losses or reputational damage due to its failure to comply with relevant laws, regulations, rules and standards. The Board of Directors of the Bank takes the ultimate responsibility for the compliance of the Bank's business activities. The Risk Management Committee under the Board of Directors supervises the Bank's compliance risk management. The Board of Supervisors is responsible for supervising the Board of Directors and the senior management in performing their compliance management duties. The senior management is responsible for managing compliance risk, conducting assessments of compliance risk annually and submitting compliance risk reports to the Board of Directors. The Bank has established a sound compliance risk management system and organizational structure, including three coordinated lines of defense against compliance risk (i.e. front, middle and back offices), and a vertical two-way reporting system amongst the head office, branches and sub-branches. This enables the Bank to optimize its techniques and procedures for compliance risk management through continuous improvement in compliance risk management measures, so as to realize effective control of compliance risk.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.8 Compliance risk management (Continued)

During the Reporting Period, with a focus on its business development strategy, the Bank gave priority to internal control as usual, established the philosophy of “facilitating development with compliance”, and took more forward-looking and targeted measures for compliance management. The Bank implemented various regulatory requirements and strengthened the construction of its internal control system, thus achieving effective compliance risk management and receiving favorable comments from regulatory authorities. By carrying out special campaigns such as “Deepening the Rectification of Irregularities in the Banking Industry”, “Year of Quality Improvement”, “Year of Internal Control Improvement”, “Identification of Non-performing Loan Liability” and “Implementing Three Fundamental Tasks and Putting in Place Four Elements (三基四到位)”, the Bank promoted the construction of compliance culture, improved its internal rules and regulations, optimized the compliance risk identification and assessment process, strengthened the accountability for non-compliance, and increased support for legal compliance review and product innovation, thereby providing guarantee for the Bank’s compliance operations.

3.10.9 Anti-money laundering management

The Bank attaches great importance to anti-money laundering. It fully implements anti-money laundering laws and regulations, fulfills its legal obligations on anti-money laundering and firmly promotes anti-money laundering work.

During the Reporting Period, based on the changes in money laundering risks, the Bank optimized the rules on abnormal withdrawal transactions, screened out a watch list of customers, carried out effective screening of money laundering risk and fortified the firewall against money laundering risk. The Bank also set up a sound positive incentive mechanism against money laundering and organized the selection of advanced anti-money laundering units to fully mobilize the enthusiasm, initiative and creativity of its business lines, service outlets and employees in anti-money laundering. Moreover, the Bank improved the risk indicator system on customers’ money laundering and followed qualitative and quantitative principles to dynamically adjust the risk level of customers’ money laundering. Based on the suspicious transactions reported by its branches, the Bank strengthened the collection, analysis and application of data and information to timely issue risk alerts within the Bank. The Bank also carried out anti-money laundering training at different levels through various channels to raise employees’ awareness of anti-money laundering and create an atmosphere of anti-money laundering compliance.

At present, under the increasingly complex international economic and financial situation and with the rapid development of information technology, artificial intelligence and Internet technology, the methods and means of money laundering are becoming more subtle and diverse, posing increasingly severe challenges in anti-money laundering. The Bank will implement risk-based anti-money laundering measures and constantly strengthen its internal control system in an ongoing effort to improve money laundering risk prevention and control.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.10 Implementation of the Basel Accord

The Bank is one of the earliest urban commercial banks in China committed to the implementation of the New Basel Capital Accord. Focusing on the measurement of the three major risks under the first pillar, the Bank gradually promoted the development and application of advanced methods for capital measurement in accordance with the requirements under the Measures for Capital Management of Commercial Banks (Trial) and other regulatory policies. The Bank has established and put into use an internal risk rating system for non-retail and retail credit risk of customers. This year, the Bank finished the verification and optimization of the risk rating models for manufacturing, wholesale and retail business. The internal risk rating system for non-retail credit risk of loans was also completed and being promoted throughout the Bank. The Bank has completed the business consultation on the standardized approach to measuring operational risk and the construction of an operational risk relationship system, and is now carrying out optimization and upgrading of the system. The establishment of the internal models approach for market risk is under discussion and preparation.

3.11 INFORMATION TECHNOLOGY

During the Reporting Period, for information technology management, the Bank adhered to the working ideas of stabilizing operation, controlling risks, promoting development and improving capabilities to improve IT infrastructure, strengthen risk prevention and control, and refine operation and management, thus effectively supporting and promoting the development of various business lines. The information system of the Bank continued to provide efficient services across the Bank. First, the Bank continued to improve the IT operation guarantee system. By launching a next-generation core platform, it managed to put the design rationale of “customer orientation, flexible product customization, multi-channel cooperation, efficient operation and data standardization” into full practice, solidify the fundamental framework of technology, enhance IT support and service capabilities and lay a solid foundation for its transformation into a smart and digital bank. Second, the Bank gradually enhanced its capacity for the prevention and control of information security risks. It built a self-service security protection platform and a unified Internet security portal, made a great effort to promote an operation and maintenance audit platform, strengthened electronic information security protection and management, so as to continuously improve its IT security risk control capabilities. Third, the Bank vigorously explored innovative applications of mobile and intelligent banking. Backed by a standardized development management system, the Bank built and launched a series of mobile Internet systems such as a new mobile banking system and an online lending platform with the use of biometric recognition, big data and other technologies to realize innovative upgrading of mobile and intelligent banking. Fourth, the Bank made every effort to improve its IT management level and capabilities. On the basis of completing such standardization systems as the ISO20000 and CMMI3, the Bank initiated the implementation and certification of the ISO27001 security system to further evaluate and enhance its standardized IT management level.

Chapter III Management Discussion and Analysis

3.12 PROFIT DISTRIBUTION OF ORDINARY SHARES

Profit distribution plan for 2017

The profit distribution plan of the Bank for 2017 was considered and approved at the 2017 annual general meeting of the Bank held on 30 June 2018.

Audited net profit attributable to shareholders of the Bank for 2017 was RMB7,423.622 million. Pursuant to the Articles of Association of the Bank, the profit distribution plan of the Bank for 2017 is as follows:

- (1) RMB742.36 million, RMB1,243.529 million and RMB742.36 million were allocated to the statutory surplus reserve, general risk provision and discretionary surplus reserve respectively, and the remaining distributable profit for the year amounted to RMB4,695.373 million;
- (2) 1 bonus share for every 10 shares (inclusive of tax) plus a cash dividend of RMB0.25 (inclusive of tax) for every 10 shares, i.e. a total of 1,104,981,928 bonus shares (including 788,731,928 Domestic Shares and 316,250,000 H Shares), and a total cash dividend of RMB276.2455 million were declared and distributed to all shareholders of the Bank.

The final dividend for 2017 was payable to the holders of Domestic Shares and H Shares whose names appear on the register of members of the Bank as at 11 July 2018. Bonus Domestic Shares were distributed by China Securities Depository and Clearing Corporation Limited on 23 July 2018. Cash dividends for Domestic Shares were expected to be paid to the holders of Domestic Shares by the Bank on 29 August 2018. Bonus shares and cash dividends for H Shares were expected to be distributed on 29 August 2018 and bonus H Shares were expected to be traded starting from 30 August 2018. The cash dividend declared is denominated in RMB. The dividend payable to holders of Domestic Shares is paid in RMB whilst the dividend payable to holders of H Shares is paid in Hong Kong dollars. The exchange rate for dividend payable in Hong Kong dollars is the central parity rate of the average exchange rate of RMB to Hong Kong dollars published by the PBOC for the five business days immediately prior to the date on which the dividend was declared at the 2017 annual general meeting of the Bank (i.e. 30 June 2018 (exclusive)).

Interim profit distribution for 2018

The Bank has no interim profit distribution plan for 2018.

Chapter III Management Discussion and Analysis

3.13 SOCIAL RESPONSIBILITY

In the first half of 2018, the Bank continued to honor the mission of “assuming civic responsibility” and serving the local economy by continuously promoting financial product innovation and improving customer service and customer experience to meet customers’ financial needs. The Bank also built the overall development framework of “One Body, Two Wings (一體兩翼)” and sped up the modernization of its corporate governance system and capacity, in an effort to build a modern bank with high-quality development in all-round manner. During the Reporting Period, the Bank devoted itself to the development of people’s livelihood finance, industrial finance and green finance, and used urbanization funds, government procurement services, PPP and other products to develop comprehensive government finance, thereby effectively serving the construction of public infrastructure. The Bank innovated in investment banking, transaction banking and other business models to offer strong support for the transformation and upgrading of enterprises; strengthened the role of green credit in leverage adjustment by promoting green credit and issuing green bonds to support low-carbon economy; made targeted efforts in promoting inclusive finance in support of small and micro enterprises to reduce enterprise financing costs and improve the availability of financial services; vigorously developed inclusive finance in rural areas and broadened the coverage of financial services to support the development of “agriculture, rural areas and farmers”; supported poverty alleviation finance and used such models as industrial poverty alleviation and targeted poverty alleviation to improve the precision of financial poverty alleviation. In an effort to provide more efficient and environment-friendly financial services, the Bank accelerated the development of technology finance by improving e-banking, online services and green services to provide customers with intelligent services and ultimate experience. In order to firmly guard against systemic risks and guarantee smooth transformation and upgrading, the Bank emphasized the philosophy of financial security and focused on building a comprehensive, full-process risk management system covering all employees to enhance its risk management capabilities. In addition, the Bank played an active role in the national energy-saving and emission-reduction campaign by promoting green operations. The Bank also promoted multi-level personnel training and carried out organizational optimization and construction of a performance appraisal mechanism to strengthen team building.

In recent years, as a listed company and a public bank, the Bank actively fulfilled its social responsibility by undertaking an array of social welfare activities, including donating a total of RMB3 million to Anhui Provincial Women’s Federation, carrying out the public welfare program of “Spreading Love over the Yangtze-Huaihe Area”, setting up the “Spreading Love over the Yangtze-Huaihe Area – Anhui Social Care Fund” and the “Spreading Love over the Yangtze-Huaihe Area – Anhui Female Entrepreneurship Development Fund”, helping 200 poor female college students and 100 outstanding women in need solve their financial difficulties in education and life, and helping 20 “Anhui Girls” build professional cooperatives, e-commerce businesses and offices. The Bank’s public welfare program of “Spreading Love over the Yangtze-Huaihe Area” won the “2018 Junding Award for Classic Cases of Precision Poverty Alleviation by Financial Institutions”.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.1 CHANGES IN ORDINARY SHARES OF THE BANK DURING THE REPORTING PERIOD

	30 June 2018		Changes during the Reporting Period	31 December 2017	
	Number of Shares	Percentage (%)		Number of Shares	Number of Shares
Domestic Shares	7,887,319,283	71.38	–	7,887,319,283	71.38
H Shares	3,162,500,000	28.62	–	3,162,500,000	28.62
Total number of ordinary shares	11,049,819,283	100.00	–	11,049,819,283	100.00

Note: As at 30 June 2018, the Bank had a total of 17,918 shareholders of ordinary shares, including 1,602 shareholders of H Shares and 16,316 shareholders of Domestic Shares.

4.2 INFORMATION ON THE SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

As at 30 June 2018, the order of the top ten shareholders of the Bank was sorted by: (1) (for H Shares) the aggregate of the H Shares of the Bank held by investors which were deposited into the Central Clearing and Settlement System of the Hong Kong Stock Exchange and registered under the name of HKSCC NOMINEES LIMITED, a wholly-owned subsidiary of the Hong Kong Stock Exchange, representing 28.59% of the total share capital of ordinary shares and representing 99.88% of the total H Shares issued; and (2) for Domestic Shares, the order was based on the number of shares held directly under the domestic shareholders register kept by China Securities Depository and Clearing Co., Ltd..

No.	Name of shareholder	Nature of shareholder	Shares held by the end of the period (share)	Percentage of total share capital of ordinary shares (%)	Type of share	Increase/decrease of shares during the Reporting Period (share)	Pledged or frozen (share)
1	HKSCC NOMINEES LIMITED	– ⁽¹⁾	3,158,643,980	28.59	H Share	232,000	– ⁽¹⁾
2	Anhui Energy Group Co., Ltd.	State-owned legal person	766,694,381	6.94	Domestic Share	0	0
3	Anhui Credit Guaranty Group Co., Ltd.	State-owned legal person	752,416,446	6.81	Domestic Share	0	376,208,200
4	Anhui Guoyuan Financial Holding Group Co., Ltd. ⁽²⁾	State-owned legal person	645,388,876	5.84	Domestic Share	0	0
5	Anhui Transportation Holding Group Co., Ltd.	State-owned legal person	469,032,613	4.24	Domestic Share	0	0
6	Zhongjing Sihai Co., Ltd.	Domestic non-state-owned legal person	444,696,160	4.02	Domestic Share	0	0
7	Hefei Xingtai Financial Holding (Group) Co., Ltd.	State-owned legal person	343,591,483	3.11	Domestic Share	0	0
8	Wuhu Construction Investment Co., Ltd.	State-owned legal person	267,284,394	2.42	Domestic Share	0	0
9	CCB Trust Co., Ltd.	State-owned legal person	225,548,176	2.04	Domestic Share	0	0
10	Anhui Hengtai Real Estate Development Co., Ltd. (安徽省恒泰房地產開發有限責任公司)	Domestic non-state-owned legal person	213,341,541	1.93	Domestic Share	13,341,541	213,341,541

Notes: (1) The relevant information has not yet been obtained by the Bank, nor can it be verified based on the existing information.

(2) According to the information publicly disclosed and notified to the Bank by Anhui Guoyuan Financial Holding Group Co., Ltd., its company name was changed from "Anhui Guoyuan Holding (Group) Co., Ltd." (安徽國元控股(集團)有限責任公司) to "Anhui Guoyuan Financial Holding Group Co., Ltd." (安徽國元金融控股集團有限責任公司) on 18 July 2018.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2018, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO").

Name of Shareholder	Type of share	Long/short Position	Capacity	Number of shares	Percentage of the underlying shares in issue (%)	Percentage of all issued ordinary shares (%)	Note
Anhui Energy Group Co., Ltd.	H Share	Long	Interest of controlled corporation	299,976,000	9.49	2.71	1
	Domestic Share	Long	Interest of controlled corporation	137,104,296	1.74	1.24	1
	Domestic Share	Long	Beneficial owner	766,694,381	9.72	6.94	1
Xing An Holdings Co., Limited	H Share	Long	Beneficial owner	299,976,000	9.49	2.71	1
Anhui Credit Guaranty Group Co., Ltd.	Domestic Share	Long	Beneficial owner	752,416,446	9.54	6.81	2
	Domestic Share	Long	Interest of controlled corporation	2,294,842	0.03	0.02	2
Anhui Guoyuan Financial Holding Group Co., Ltd.	Domestic Share	Long	Interest of controlled corporation	149,087,330	1.89	1.35	3
	Domestic Share	Long	Beneficial owner	645,388,876	8.18	5.84	3
Anhui Transportation Holding Group Co., Ltd.	H Share	Long	Interest of controlled corporation	2,727,000	0.09	0.02	4
	Domestic Share	Long	Beneficial owner	469,032,613	5.95	4.24	4
China Vanke Co., Ltd.	H Share	Long	Interest of controlled corporation	883,986,000	27.95	8.00	5
Wkland Finance Holding Company Limited	H Share	Long	Beneficial owner	511,140,000	16.16	4.63	5
Wkland Finance Holding II Company Limited	H Share	Long	Beneficial owner	372,846,000	11.79	3.37	5
Sunshine Insurance Group Corporation Limited	H Share	Long	Interest of controlled corporation	543,722,000	17.19	4.92	6
Sunshine Life Insurance Corporation Limited	H Share	Long	Beneficial owner	543,722,000	17.19	4.92	6
Shanghai Soong Ching Ling Foundation	H Share	Long	Interest of controlled corporation	1,132,604,000	35.81	10.25	9,10,11
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	7,8
Zhongjing Industry (Group) Limited	H Share	Long	Interest of controlled corporation	1,132,604,000	35.81	10.25	9,10,11
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	7,8
Modern Innovation Holdings Co., Limited	H Share	Long	Interest of controlled corporation	1,132,604,000	35.81	10.25	9,10,11
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	7,8
Jing'An Shanghai Silver Investment Co., Ltd.	H Share	Long	Interest of controlled corporation	1,132,604,000	35.81	10.25	9,10,11
	Domestic Share	Long	Interest of controlled corporation	649,042,730	8.23	5.87	7,8
Zhongjing Xinhua Asset Investment Management Company Ltd.	H Share	Long	Interest of controlled corporation	1,132,604,000	35.81	10.25	9,10,11
	Domestic Share	Long	Interest of controlled corporation	444,696,160	5.64	4.02	8
	Domestic Share	Long	Beneficial owner	204,346,570	2.59	1.85	7
Zhongjing Sihai Co., Ltd.	Domestic Share	Long	Beneficial owner	444,696,160	5.64	4.02	8
Zhongjing Xinhua Property Management (Hong Kong) Co., Limited	H Share	Long	Interest of controlled corporation	884,014,000	27.95	8.00	10,11
	H Share	Long	Beneficial owner	248,590,000	7.86	2.25	9
Wealth Honest Limited	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	11
	H Share	Long	Beneficial owner	484,014,000	15.30	4.38	10
Wealth Honest Cayman Holdings Company Limited	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	11
Qingdao State-owned Assets Supervision & Administration Commission	H Share	Long	Security interest	400,000,000	12.65	3.62	11
Qingdao City Construction Investment (Group) Limited	H Share	Long	Security interest	400,000,000	12.65	3.62	11
Qingdao City Construction Financial Holding Group Co., Ltd.	H Share	Long	Security interest	400,000,000	12.65	3.62	11
China Golden Harbour (Holdings) Group	H Share	Long	Security interest	400,000,000	12.65	3.62	11
Golden Harbour Global Holdings Limited	H Share	Long	Security interest	400,000,000	12.65	3.62	11
Wealth Honest Fund LP	H Share	Long	Interest of controlled corporation	400,000,000	12.65	3.62	11
Golden Harbour Investments Management Limited	H Share	Long	Beneficial owner	400,000,000	12.65	3.62	11
CITIC Securities Company Limited	H Share	Long	Interest of controlled corporation	337,617,000	10.68	3.06	12
	H Share	Short	Interest of controlled corporation	314,899,500	9.96	2.85	12

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Notes:

- (1) Xing An Holdings Limited holds 299,976,000 H Shares (long position) of the Bank. Xing An Holdings Limited is a wholly-owned subsidiary directly controlled by Anhui Energy Group Co., Ltd. As such, Anhui Energy Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Xing An Holdings Limited. However, to the knowledge of the Bank and based on the confirmation of Anhui Energy Group Co., Ltd., Xing An Holdings Limited sold down 169,000 H Shares through on exchange trading during the Reporting Period, which did not trigger the disclosure requirements under Part XV of the SFO. Therefore, no disclosure was made on the Hong Kong Stock Exchange. As such, as at 30 June 2018, Xing An Holdings Limited and its de facto controller ultimately held interests in 299,976,000 H Shares (long position).

At the same time, Anhui Energy Group Co., Ltd. directly holds 766,694,381 Domestic Shares (long position) of the Bank. It also effectively control 137,104,296 Domestic Shares of the Bank that were held by its controlling subsidiary, Anhui Province Wenergy Co., Ltd. (安徽省皖能股份有限公司).

- (2) Anhui Jinrun Information Technology Co., Ltd. (安徽省金潤資訊科技有限責任公司) holds 2,294,842 Domestic Shares (long position) of the Bank. Anhui Jinrun Information Technology Co., Ltd. is a controlling subsidiary of Anhui Credit Guaranty Group Co., Ltd. (安徽省信用擔保集團有限公司). As such, Anhui Credit Guaranty Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Jinrun Information Technology Co., Ltd. At the same time, Anhui Credit Guaranty Group Co., Ltd. holds 752,416,446 Domestic Shares (long position) of the Bank.
- (3) Anhui Guoyuan Financial Holding Group Co., Ltd. (安徽國元金融控股集團有限責任公司), formerly known as Anhui Guoyuan Holding (Group) Co., Ltd. (安徽國元控股(集團)有限責任公司), changed its name to the current one on 18 July 2018. The shareholdings in the Bank held by Anhui Guoyuan Financial Holding Group Co., Ltd. include the Domestic Shares of the Bank held by its subsidiaries, including Anhui Guoyuan Ma'anshan Asset Management Co., Ltd. (安徽國元馬鞍山投資管理有限責任公司), Anhui Guoyuan Trust Co., Ltd. (安徽國元信託有限責任公司) and Guoyuan Securities Co., Ltd. (國元證券股份有限公司).
- (4) Anhui Transportation Holding Group (H.K.) Limited (安徽省交通控股集團(香港)有限公司) holds 2,727,000 H Shares (long position) of the Bank. Anhui Transportation Holding Group (H.K.) Limited is a wholly-owned subsidiary directly controlled by Anhui Transportation Holding Group Co., Ltd. As such, Anhui Transportation Holding Group Co., Ltd. is deemed to be interested in the shares of the Bank held by Anhui Transportation Holding Group (H.K.) Limited. At the same time, Anhui Transportation Holding Group Co., Ltd. holds 469,032,613 Domestic Shares (long position) of the Bank.
- (5) China Vanke Co., Ltd. is deemed to hold interests in a total of 883,986,000 H Shares (long position) of the Bank by virtue of its control over the following corporations which hold direct interests in the Bank:
- 5.1 Wkland Finance Holding Company Limited holds 511,140,000 H Shares (long position) of the Bank. Wkland Finance Holding Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
- 5.2 Wkland Finance Holding II Company Limited holds 372,846,000 H Shares (long position) of the Bank. Wkland Finance Holding II Company Limited is a wholly-owned subsidiary indirectly controlled by China Vanke Co., Ltd.
- (6) Sunshine Life Insurance Corporation Limited holds 543,722,000 H Shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a subsidiary directly controlled by Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited is deemed to be interested in the shares of the Bank held by Sunshine Life Insurance Corporation Limited.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (7) Zhongjing Xinhua Asset Investment Management Co., Ltd. ("Zhongjing Xinhua") directly holds 204,346,570 Domestic Shares (long position) of the Bank. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Shanghai Silver Investment Co., Ltd. ("Jing'An Silver"). Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation Holdings Co., Limited ("Modern Innovation"). Modern Innovation is a subsidiary directly controlled by Zhongjing Industry (Group) Limited ("Zhongjing Industry"). Zhongjing Industry is a subsidiary directly controlled by Shanghai Soong Ching Ling Foundation ("SCL Foundation"). As such, SCL Foundation, Zhongjing Industry, Modern Innovation and Jing'An Silver are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua.
- (8) Zhongjing Sihai Co., Ltd. ("Zhongjing Sihai") holds 444,696,160 Domestic Shares (long position) of the Bank. It is a subsidiary directly controlled by Zhongjing Xinhua. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Sihai.
- (9) Zhongjing Xinhua Property Management (Hong Kong) Co., Limited ("Zhongjing Xinhua Hong Kong") holds 118,590,000 H Shares (long position) of the Bank. In addition, according to the disclosure of interests forms submitted to the Stock Exchange by the SCL Foundation and its affiliates and as informed by the email from Zhongjing Xinhua, Zhongjing Xinhua HK proposed to acquire 130,000,000 H shares of the Bank by way of off-exchange trading on 4 January 2018, the share transfer of which has not been completed yet. According to the agreement between Zhongjing Xinhua HK and the vendor(s), Zhongjing Xinhua HK is entitled to exercise all rights of holders of these 130,000,000 H shares and the vendor(s) undertake(s) to appoint the person(s) designated by Zhongjing Xinhua HK as its (their) proxy(ies) to attend and vote at the relevant general meeting(s) or class meeting(s) of the Bank in accordance with the instructions of Zhongjing Xinhua HK, if the Bank holds any general meeting(s) or class meeting(s) after the date of the agreement. Accordingly, Zhongjing Xinhua Hong Kong is deemed to be interested in those 130,000,000 H Shares although the transaction of such shares has yet been completed.

Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Silver. Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation. Modern Innovation is a subsidiary directly controlled by Zhongjing Industry. Zhongjing Industry is a subsidiary directly controlled by SCL Foundation. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver and Zhongjing Xinhua are deemed to be interested in the shares of the Bank held by Zhongjing Xinhua Hong Kong.

- (10) Wealth Honest Limited ("Wealth Honest") holds 484,014,000 H Shares (long position) of the Bank. Wealth Honest is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua Hong Kong. Zhongjing Xinhua Hong Kong is a wholly-owned subsidiary directly controlled by Zhongjing Xinhua. Zhongjing Xinhua is a subsidiary directly controlled by Jing'An Silver. Jing'An Silver is a wholly-owned subsidiary directly controlled by Modern Innovation. Modern Innovation is a subsidiary directly controlled by Zhongjing Industry. Zhongjing Industry is a subsidiary directly controlled by SCL Foundation. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua and Zhongjing Xinhua Hong Kong are deemed to be interested in the shares of the Bank held by Wealth Honest.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

- (11) Golden Harbour Investments Management Limited ("Golden Harbour") held 400,000,000 H Shares (long position) of the Bank. The Bank was further informed by Zhongjing Xinhua by email that Wealth Honest Fund LP (a limited partnership established in the Cayman Islands) holds 100% equity interests in Golden Harbour; and Wealth Honest Cayman Holdings Company Limited (a direct wholly-owned subsidiary of Wealth Honest) is the sole general partner of Wealth Honest Fund LP and has absolute control over the operations of the partnership. Accordingly, Wealth Honest can 100% indirectly control Golden Harbour. For information about Wealth Honest, please refer to note (9) above. As such, SCL Foundation, Zhongjing Industry, Modern Innovation, Jing'An Silver, Zhongjing Xinhua, Zhongjing Xinhua Hong Kong, Wealth Honest, Wealth Honest Cayman Holdings Company Limited and Wealth Honest Fund LP are deemed to be interested in the shares of the Bank held by Golden Harbour.

According to the disclosure of interests forms submitted to the Hong Kong Stock Exchange by the State-owned Assets Supervision and Administration Commission of Qingdao City and its subsidiaries, Golden Harbour Global Holdings Limited, a wholly-owned subsidiary directly controlled by China Golden Harbour (Holdings) Group, holds 70% equity interests in Wealth Honest Fund LP; China Golden Harbour (Holdings) Group is a wholly-owned subsidiary directly controlled by Qingdao City Construction Financial Holding Group Co., Ltd.; Qingdao City Construction Financial Holding Group Co., Ltd. is a wholly-owned subsidiary directly controlled by Qingdao City Construction Investment (Group) Limited; Qingdao City Construction Investment (Group) Limited is wholly-owned by the State-Owned Assets Supervision & Administration Commission of Qingdao City. The State-owned Assets Supervision and Administration Commission of Qingdao City, Qingdao City Construction Investment (Group) Limited, Qingdao City Construction Financial Holding Group Co., Ltd., China Golden Harbour (Holdings) Group and Golden Harbour Global Holdings Limited own security interest in 400 million H Shares of the Bank.

- (12) CITIC Securities Company Limited is deemed to be interested in 337,617,000 H Shares (long position) and 314,899,500 H Shares (short position) of the Bank as it has control over the following corporations that are directly interested in the shares of the Bank:

12.1 CSI Capital Management Limited is interested in 337,617,000 H Shares (long position) and 52,425,000 H Shares (short position) of the Bank. CSI Capital Management Limited is a wholly-owned subsidiary indirectly controlled by CITIC Securities Company Limited.

12.2 CSI Financial Products Limited is interested in 262,474,500 H Shares (short position) of the Bank. CSI Financial Products Limited is a wholly-owned subsidiary indirectly controlled by CITIC Securities Company Limited.

These equity interests are all interests of derivatives, 285,192,000 H Shares (long position) of which belong to listed derivatives – convertible instruments, and 52,425,000 H Shares (long position) and 314,899,500 H Shares (short position) of which belong to unlisted derivatives – cash-settled, respectively.

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

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.4 PREFERENCE SHARES

4.4.1 Issuance and listing of preference shares in the recent three years

On 10 November 2016, the Bank conducted a non-public offering of 44,400,000 Offshore Preference Shares in offshore markets at the issue price of US\$20 per share and raised US\$888 million. The Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 11 November 2016. After deducting the issue expenses, the Bank applied all the proceeds raised from the issuance of Offshore Preference Shares to replenish its additional tier 1 capital according to applicable laws and regulations and the approval from relevant regulatory authorities.

4.4.2 Number of preference shareholders and their shareholdings

As at the end of the Reporting Period, the Bank recorded one preference shareholder (or depository). Particulars of its shareholding were as follows:

Name of preference shareholder	Nature of shareholder	Type of shares	Increase/ decrease during the Reporting Period	Shareholding percentage (%)	Total number of shares held	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
DB Nominees (Hong Kong) Limited	Foreign legal person	Offshore Preference Shares	-	100	44,400,000	-	Unknown

Notes:

- Particulars of shareholding of the preference shareholders are based on the information in the Bank's register of preference shareholders.
- As the issuance was an offshore non-public offering, the register of preference shareholders presented the shareholding information of DB Nominees (Hong Kong) as the depository of the preference shareholders in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. at the end of the Reporting Period.

4.4.3 Profit distribution of preference shares

During the Reporting Period, there was no dividend payment in respect of preference shares. Further announcement(s) in respect of payment of dividends on preference shares will be made by the Bank as and when appropriate.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.4 PREFERENCE SHARES (Continued)

4.4.4 Redemption or conversion of preference shares

During the Reporting Period, there was no redemption or conversion of preference shares issued by the Bank.

4.4.5 Restoration of voting rights of preference shares

During the Reporting Period, there was no restoration of voting rights of preference shares issued by the Bank.

4.4.6 Accounting policy adopted for preference shares and grounds

In accordance with Accounting Standards for Enterprise No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprise No. 37 – Presentation of Financial Instruments and Rules on the Differences between Financial Liability and Equity Instruments and Relevant Accounting Treatment promulgated by the Ministry of Finance of the PRC, as well as International Accounting Standards No. 39 – Financial Instruments: Recognition and Measurement and International Accounting Standards No. 32 – Financial Instruments: Presentation formulated by the International Accounting Standards Board, the provisions of the issued and existing preference shares of the Bank conform to the accounting requirements as equity instruments, and will be accounted for as equity instruments.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Gender	Position Held
Wu Xuemin	Male	Chairman, Executive Director
Ci Yaping	Male	Vice President, Executive Director
Zhang Feifei	Male	Non-Executive Director
Zhu Jiusheng	Male	Non-Executive Director
Qian Li	Male	Non-Executive Director
Lu Hui	Female	Non-Executive Director
Zhao Zongren	Male	Non-Executive Director
Qiao Chuanfu	Male	Non-Executive Director
Gao Yang	Male	Non-Executive Director
Dai Genyou	Male	Independent Non-Executive Director
Wang Shihao ⁽¹⁾	Male	Independent Non-Executive Director
Zhang Shenghuai	Male	Independent Non-Executive Director
Au Ngai, Daniel	Male	Independent Non-Executive Director
Zhu Hongjun ⁽¹⁾	Male	Independent Non-Executive Director
Zhou Yana ⁽²⁾	Female	Independent Non-Executive Director
Zhang Youqi ⁽²⁾	Male	Chairman of the Board of Supervisors, Employee Representative Supervisor
Tang Chuan ⁽²⁾	Male	Chairman of Labor Union, General Manager of Human Resources Department, Employee Representative Supervisor
Zhong Qiushi ⁽²⁾	Male	General Manager of Risk Management Department, Employee Representative Supervisor
Cheng Rulin	Male	Shareholder Supervisor
Li Ruifeng	Male	Shareholder Supervisor
Cheng Junpei	Female	External Supervisor
Pan Shujuan	Female	External Supervisor
Yang Mianzhi	Male	External Supervisor
Zhang Renfu ⁽³⁾	Male	President
Gao Guangcheng	Male	Vice President
Yi Feng	Male	Assistant to President
Xia Min	Male	Assistant to President
Chen Hao	Male	Chief Information Officer
Ni Jianxiang	Male	Director of Retail Banking and General Manager of Credit Card Centre
Huang Xiaoyan	Female	Director of Investment and Wealth Management and General Manager of Assets and Liabilities Department
Zhou Tong	Female	Director of Risk and Compliance and General Manager of Compliance Department
Li Dawei	Male	Financial Controller and General Manager of Financial Accounting Department
Gao Chunming	Female	Director of Corporate Banking and General Manager of Corporate Banking Department
Lian Baohua	Male	Secretary of the Board of Directors and General Manager of Research and Development Department

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Notes:

- (1) Mr. Wang Shihao and Mr. Zhu Hongjun tendered their resignations to the Bank on 16 December 2015 and 7 April 2016, respectively, as the independent non-executive directors of the Bank and their positions in various Board committees. Their resignations will take effect on the date upon the formal appointment of the succeeding independent non-executive directors by the Bank.
- (2) For details of the position changes of Ms. Zhou Yana, Mr. Zhang Youqi, Mr. Tang Chuan and Mr. Zhong Qiushi, please refer to Section 5.2 “Appointment and Resignation during the Reporting Period” of this report.
- (3) For details of the position change of Mr. Zhang Renfu, please refer to Section 5.2 “Appointment and Resignation during the Reporting Period” of this report.

5.2 APPOINTMENT AND RESIGNATION DURING THE REPORTING PERIOD

1. The Bank announced on 12 December 2017 that the Board had convened a meeting on the date of the announcement and elected Mr. Wu Xuemin as the chairman of the Board, the chairman of the Strategic Development and Consumer Rights Protection Committee and a member of the Nomination and Remuneration Committee of the Bank. The Bank announced on 10 May 2018 that the qualifications of Mr. Wu Xuemin as the chairman of the Board of the Bank had been approved by the CBRC Anhui Office.
2. The Bank announced on 28 February 2018 that Ms. Zhou Tong had tendered her resignation to the Bank as an employee representative supervisor and a member of the supervisory committee under the Board of Supervisors of the Bank due to her other job commitments. Her resignation took effect from the date of appointment of her succeeding employee representative supervisor Mr. Tang Chuan by the Bank on 6 March 2018. Ms. Zhou Tong was appointed as the risk compliance director of the Bank, and her appointment was approved by the CBRC Anhui Office on 30 June 2018.
3. The Bank announced on 6 March 2018 that Mr. Tang Chuan had been elected as an employee representative supervisor through employees’ democratic election procedures of the Bank on the date of the announcement. The term of office of Mr. Tang is the same as that of the third session of the Board of Supervisors of the Bank. Mr. Tang Chuan was also elected as the Chairman of Labor Union of the Bank on 15 June 2018.
4. On 7 March 2018, Mr. Yi Feng, the assistant to the president and secretary to the Board of the Bank, tendered his resignation as the secretary to the Board of the Bank.
5. The Bank announced on 23 March 2018 that the Board had convened a meeting on the date of the announcement in respect of the proposal to nominate Ms. Zhou Yana as a candidate for independent non-executive director of the third session of the Board of the Bank. At the Bank’s 2017 annual general meeting held on 30 June 2018, the resolution on the election of Ms. Zhou Yana as an independent non-executive director of the third session of the Board of the Bank was considered and approved, and her term of office as a director is the same as that of the third session of the Board of the Bank. The Bank announced on 21 August 2018 that the qualification of Ms. Zhou Yana as an independent non-executive director was approved by the CBRC Anhui Office. In addition, the Bank announced on 24 August 2018 that Ms. Zhou Yana was appointed as a member to the Nomination and Remuneration Committee of the third session of the Board of the Bank, effective from the same date.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.2 APPOINTMENT AND RESIGNATION DURING THE REPORTING PERIOD (Continued)

6. On 18 May 2018, Mr. Sheng Hongqing, the assistant to president and the chief investment officer, tendered his resignation as the assistant to president and the chief investment officer.
7. Mr. Lian Baohua was appointed as the secretary to the Board of the Bank, and his appointment was approved by the CBRC Anhui Office on 22 May 2018.
8. Ms. Huang Xiaoyan was appointed as the investment and wealth management director of the Bank, and her appointment was approved by the CBRC Anhui Office on 30 May 2018.
9. The Bank announced on 11 June 2018 that Mr. Xu Chongding had tendered his resignation to the Bank as an employee representative supervisor and a member of the nomination committee under the Board of Supervisors of the Bank for the reason that he had reached the retirement age. His resignation took effect from the date of appointment of his succeeding employee representative supervisor Mr. Zhong Qiushi by the Bank on 15 June 2018.
10. The Bank announced on 15 June 2018 that Mr. Zhong Qiushi had been elected as an employee representative supervisor of the Bank through employees' democratic election procedures of the Bank on the date of the announcement. The term of office of Mr. Zhong Qiushi is the same as that of the third session of the Board of Supervisors of the Bank.
11. Mr. Li Dawei was appointed as the chief financial officer of the Bank, and his appointment was approved by the CBRC Anhui Office on 20 June 2018.
12. The Bank announced on 25 July 2018 that Mr. Zhang Youqi had been elected as an employee representative supervisor of the Bank through employees' democratic election procedures of the Bank on the date of the announcement. The Bank announced on 27 July 2018 that the Board of Supervisors had convened a meeting on the date of the announcement and elected Mr. Zhang Youqi as the chairman of the Board of Supervisors, and a member of the Nomination Committee and Supervisory Committee of the Board of Supervisors of the Bank. The term of office of Mr. Zhang Youqi is the same as that of the third session of the Board of Supervisors of the Bank.
13. The Bank announced on 25 July 2018 that, due to internal change of positions, Mr. Zhang Renfu had of the Bank tendered his resignation to the Bank as the chairman of the Board of Supervisors, a member of the Nomination Committee and Supervisory Committee of the Board of Supervisors and an employee representative supervisor of the Bank. His resignation took effect from 25 July 2018. The Bank announced on 2 August 2018 that the Board of Directors had appointed Mr. Zhang Renfu as the president of the Bank and proposed appointing him as an executive director of the Bank. Relevant proposals will be put forward at the general meeting for consideration in due course. The Bank announced on 23 August 2018 that the qualification of Mr. Zhang Renfu as the president of the Bank was approved by the CBRC Anhui Office on the same date.
14. Mr. Ni Jianxiang was appointed as the director of retail banking of the Bank, and his appointment was approved by the CBRC Anhui Office on 6 August 2018.
15. Ms. Gao Chunming was appointed as the director of corporate banking of the Bank, and her appointment was approved by the CBRC Anhui Office on 6 August 2018.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.3 CHANGE OF POSITIONS HELD BY DIRECTORS AND SUPERVISORS

1. Mr. Zhang Shenghuai, an independent non-executive director of the Bank, has ceased to be an independent director of Huabei Expressway Co., Ltd. (華北高速公路股份有限公司).
2. Mr. Zhang Feifei, a non-executive director of the Bank, has ceased to be the chairman of Anhui Province Wenergy Co., Ltd.
3. Ms. Zhou Yana, a non-executive director of the Bank, has ceased to be an independent director of Tong Qing Lou Catering Co., Ltd. (同慶樓餐飲股份有限公司).
4. Mr. Yang Mianzhi, an external supervisor of the Bank, has ceased to be the director of the Accounting and Financial Research Center of Anhui University and an independent director of Anhui Anli Material Technology Co., Ltd. (安徽安利材料科技股份有限公司). Currently, he is a professor and a Ph.D. supervisor of the School of Business Administration of China University of Petroleum, Beijing, and is concurrently a legislative adviser of the NPC Financial and Economic Affairs Committee and Budgetary Affairs Committee in Anhui Province and an independent director of Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司), Guoyuan Securities Co., Ltd. (國元證券股份有限公司) and QuantumCTek Co., Ltd. (科大國盾量子股份有限公司).

Save as disclosed above, during the Reporting Period, the Bank was not aware of any change in the information of directors or supervisors which was required to be disclosed pursuant to the requirements of the Rule 13.51B(1) of the Hong Kong Listing Rules.

5.4 EMPLOYEES

1. Number of Employees

As of 30 June 2018, the Bank had a total of 9,465 employees in service.

2. Professional Structure

As of 30 June 2018, the professional structure of the Bank is as follows:

Categories	As of 30 June 2018	
	Number of employees	Percentage of the total
Management Personnel	2,377	25.11%
Business Personnel	5,170	54.62%
Supporting Personnel	1,918	20.26%
Total	9,465	100.00%

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.4 EMPLOYEES (Continued)

3. Educational Structure

	As of 30 June 2018	
	Number of employees	Percentage of the total
Master's degrees or above	1,483	15.67%
Full-time bachelor's degrees	4,657	49.2%
Part-time bachelor's degrees	2,430	25.67%
Junior college degrees or below	895	9.46%
Total	9,465	100.00%

4. Age Structure

	As of 30 June 2018	
	Number of employees	Number of employees
Aged below 30 (inclusive)	4,684	49.49%
Aged 31-40	2,583	27.29%
Aged 41-50	1,810	19.12%
Aged above 50	388	4.10%
Total	9,465	100.00%

Staff Remuneration Policy

The Bank's remuneration policy aims to establish a sound, scientific and effective incentive and control mechanism for realization of shareholder value and optimization of the Bank's efficiency and employees' interests. The policy facilitates stable operation and sustainable development of the Bank, which is therefore conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and control of risks. By following the principle of being "advanced, sustainable, compliant, timely, and operational", the Bank will take initiatives and be creative, and prioritize efficient operation and fairness within the scope of unified rules and framework.

The Bank manages remuneration through three levels, namely the Board, headquarters and branches. The Board is responsible for the management of the total amount of remuneration and senior management's remuneration. The headquarters allocate the total amount of remuneration and carries out policy-based management in accordance with the instructions and guidance by the Board. All branches manage employees' salary within the scope of unified rules and framework.

Chapter V Directors, Supervisors, Senior Management, Employees and Institutions

5.4 EMPLOYEES (Continued)

Staff Training Plan

According to the development strategies and education and training development plans, the Bank develops and implements an annual training plan to provide guarantees for staff professionalism enhancement and their career development, and to provide intellectual support for comprehensive construction of a well-developed modern bank. During the Reporting Period, the Bank organized and provided special training on “Developing New Finance” for management at different levels, training classes for various business lines, as well as the construction of internal trainer teams by making full use of three training channels, namely, the Binhu training center of Huishang Bank, the online training platform “Huiyin Internet School”, and the mobile learning platform “Huiyin Academy”. The Bank commenced the establishment of a training curriculum system and arranged for qualification tests for all positions in the Bank to further increase the proportion of all employees of the Bank possessing certificates for their positions. In the first half of 2018, the Bank conducted training for a total enrolment of 42,076 persons with a total of 261,540 hours.

5.5 COMPOSITION OF BRANCHES

Set out below are details of the branches of the Bank in the PRC as of 30 June 2018:

Region	Name of the Institution	Business Address	Postal Code	Number of Institutions
Head Office	Head Office	Block A, Tianhui Building, No. 79, Anqing Road, Luyang District, Hefei, Anhui Province	230001	1
Anhui Province	Hefei Branch	No. 626, Huangshan Road, Gaoxin District, Hefei	230001	93
	Wuhu Branch	No. 1, Beijing Road, Wuhu	241000	37
	Ma'anshan Branch	No. 3663, Taibai Road, Yushan District, Ma'anshan	243000	25
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	33
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	24
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	32
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	30
	Huainan Branch	No. 39, Shungeng Xi Road, Huainan	232000	20
	Tongling Branch	No. 999, Yangjiashan Road, Tongling	244000	16
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	27
	Huangshan Branch	No. 2, Tunguang Road, Tunxi District, Huangshan	245000	12
	Chizhou Branch	No. 515, Changjiangzhong Road, Chizhou	247000	14
	Chuzhou Branch	No. 95, Longpan Road, Chuzhou	239000	14
	Suzhou Branch	No. 123, Yinhe Yi Road, Suzhou	234000	16
Jiangsu Province	Xuancheng Branch	No.109, Meiyuan Road, Xuancheng District, Xuancheng	242000	18
	Bozhou Branch	No. 277, Plaza Xiangzhang, West Shaohua Road, Bozhou	236000	13
	Nanjing Branch	No. 231, Zhongyang Road, Nanjing	210000	12
Total				437

Chapter VI Corporate Governance

6.1 OVERVIEW OF CORPORATE GOVERNANCE

The Bank is committed to maintaining a high standard of corporate governance and actively endeavours to adhere to international and domestic corporate governance best practices so as to safeguard the interests of shareholders and enhance corporate value. The Bank established a comparatively comprehensive corporate governance structure through clarifying the responsibilities of general meetings, the Board of Directors, the Board of Supervisors and senior management, and constantly improving the Bank's decision-making, execution and supervision mechanisms to ensure the independent operation of various parties and an effective check and balance.

During the Reporting Period, the general meetings, the Board of Directors, the Board of Supervisors and the committees of the Board of Directors and the Board of Supervisors played their corresponding roles and operated effectively so as to ensure the compliant operation and the steady healthy development of the Bank. During the Reporting Period, the Bank convened a total of 31 meetings, which consists of one general meeting, six Board of Directors meetings, eleven Board of Directors committees meetings, five Board of Supervisors meetings, four meetings of the Supervisory Committee under the Board of Supervisors and four meetings of the Nomination Committee under the Board of Supervisors.

6.2 GENERAL MEETINGS

During the Reporting Period, the Bank held one general meeting. On 30 June 2018, the Bank held the 2017 annual general meeting in Hefei, Anhui Province. The notification, convening, holding and voting procedures of the meetings are in compliance with the Company Law of the PRC, the Articles of Association of the Bank and the Hong Kong Listing Rules. For the details of the resolutions, please see the announcement in relation to the poll results of the annual general meeting dated 2 July 2018, which was published on the websites of the Hong Kong Stock Exchange and the Bank, respectively.

6.3 BOARD OF DIRECTORS AND BOARD OF DIRECTORS COMMITTEES MEETINGS

During the Reporting Period, the Bank held six Board of Directors meetings, at which 50 resolutions were considered and approved. The Bank held eleven Board of Directors committees meetings (which consists of two Nomination and Remuneration Committee meetings, three Strategic Development and Consumer Rights Protection Committee meetings, two Risk Management Committee meetings, two Related Party Transaction Control Committee meetings and two Audit Committee meetings) at which 63 resolutions were studied and considered.

6.4 BOARD OF SUPERVISORS AND BOARD OF SUPERVISORS COMMITTEES MEETINGS

During the Reporting Period, the Bank held five Board of Supervisors meetings, at which 21 resolutions were considered.

The Bank held four meetings of the Supervisory Committee under the Board of Supervisors, at which 10 resolutions were considered. The Bank held five meetings of the Nomination Committee under the Board of Supervisors, at which 12 resolutions were considered.

Chapter VI Corporate Governance

6.5 SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND THE RELEVANT EMPLOYEES

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Bank (including their spouses and children) in respect of their dealings in the Bank’s securities.

Having made specific enquiries to all the directors and supervisors, the Bank confirmed that they had complied with the Model Code throughout the six months ended 30 June 2018.

6.6 INTERNAL CONTROL

Following the operation philosophy of compliant and steady development, the Bank has established an internal control system consisting of five elements, namely, internal environment, risk assessment, control measures, information and communication, and internal supervision according to the internal and external laws and regulations such as the Basic Norms of Internal Control for Enterprises and its relevant guidelines, the Guidelines for Internal Control of Commercial Banks, the Basic Norms of Internal Control for Huishang Bank as well as the relevant requirements of the Hong Kong Stock Exchange. The Bank has clearly defined the objectives, principles and organizational system of internal control through internal control system infrastructure, exerted full control over the whole process of various operation and management of the Bank, and in the course of carrying out internal control, continued to enhance our internal control system so as to ensure the compliant and steady development of the Bank.

Pursuant to the relevant national laws and regulations, the Bank established a standard corporate governance structure and rules of procedure; formed a scientific and effective segregation of duties as well as a checks and balances mechanism. The Board of the Bank takes ultimate responsibility for the establishment of the internal control system as well as the effectiveness of its implementation. The Board of Supervisors is in charge of overseeing the Board and senior management to establish and improve the internal control system; and overseeing the Board and its directors, senior management and senior officers to perform their duty of internal control. Senior management is responsible for the execution of internal control system and policies approved by the Board of Directors. The operational management departments at all levels and sales networks form the “first-line defense of internal control” of the Bank, which take on the primary responsibility of developing and implementing internal control. The internal control management position in each functional department of the head office and branches and the compliance management departments at all levels comprise the “second-line defense of internal control”, providing guidance and supervision on the development and implementation of the first-line defense of internal control as well as reporting to the management on the establishment and implementation of the internal control system of the Bank. Being the “third-line defense of internal control”, the audit department monitors and examines the effectiveness of internal control.

During the Reporting Period, the Bank organized special campaigns including the “Year of Quality Improvement” and “Deepening the Rectification of Irregularities in the Banking Industry” and special tasks including the annual case prevention work assessment for 2017, compliance risk management and assessment for 2017 and anti-money laundering assessment for 2017, and coordinated with the CBRC Anhui Office to carry out special inspection on the implementation of the commitment to risk control by the Board of Directors, the Board of Supervisors and Senior Management so as to further improve market risk, credit risk and operational risk management system. Therefore, the internal control system operated effectively. In addition, the Bank has conducted assessments of the internal control on all management departments and offices of the head office and branches, as well as sub-branches in 2017. After the inspection by the Board of Directors of the Bank, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were found.

Chapter VI Corporate Governance

6.7 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Reporting Period, the Bank has applied the principles of the Corporate Governance Code ("CG Code") set out in Appendix 14 to the Hong Kong Listing Rules. Except for the code provisions in paragraphs A.4.2 and A.5.1 of the CG Code, the Bank strictly complied with all the code provisions as well as most of the recommended best practices of the CG Code. According to the code provision in paragraph A.4.2 of the CG Code, every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The term of the third session of the Board of Directors is three years, which expired on 10 July 2016. As, among others, nomination process for some of the directors to be nominated by shareholders has not yet been completed and candidates for part of directors are still in selection process, the Bank could not accomplish the re-election of the Board of Directors before the expiration of the third session of Board of Directors. The existing directors shall continue to perform their respective duties until the re-election is completed. In addition, according to the requirements of Rule 3.25 of the Hong Kong Listing Rules and the code provision in paragraph A.5.1 of the CG Code, independent non-executive directors shall comprise a majority of the Nomination and Remuneration Committee under the Board. From 20 March 2017 when Mr. Fung Weichang ceased to be an independent non-executive director, a member of the Strategic Development Committee and a member of the Nomination and Remuneration Committee until 24 August 2018, the Nomination and Remuneration Committee under the Board comprised six members, among which, three are independent non-executive directors. This did not comply with requirements of Rule 3.25 of the Hong Kong Listing Rules and paragraph A.5.1 of the CG Code. The Bank has appointed Ms. Zhou Yana, the independent non-executive director of the Bank, as a member of the Nomination and Remuneration Committee of the Bank on 24 August 2018, effective from the same date. Subsequently, the Nomination and Remuneration Committee of the Bank comprises seven members, among which, four are independent non-executive directors. The composition of the Nomination and Remuneration Committee of the Bank has re-complied with Rule 3.25 of the Hong Kong Listing Rules and paragraph A.5.1 of the CG Code.

Chapter VII Significant Events

7.1 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

The Bank did not hold or trade shares of other listed companies during the Reporting Period.

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

There was no purchase, sale or redemption by the Bank or its subsidiaries of the listed securities of the Bank during the Reporting Period.

7.3 INTERESTS AND SHORT POSITIONS HELD BY THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2018, the directors, supervisors and chief executives of the Bank and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code:

Name	Position	Type of shares	Capacity	Number of shares (share) (Long position)	Percentage of related issued shares (%)	Percentage of all issued ordinary shares (%)
Ci Yaping	Director	Domestic Shares	Beneficial Owner	133,451	0.0017	0.0012
Zhang Youqi ⁽¹⁾	Supervisor	Domestic Shares	Beneficial Owner	22,956	0.0003	0.0002
Tang Chuan ⁽¹⁾	Supervisor	Domestic Shares	Beneficial Owner	50,917	0.0006	0.0005
Zhong Qiushi ⁽¹⁾	Supervisor	Domestic Shares	Beneficial Owner	29,212	0.0004	0.0003
Yang Mianzhi	Supervisor	Domestic Shares	Beneficial Owner	6,012	–	–

Note:

- (1) For details of the position changes of Mr. Zhang Youqi, Mr. Tang Chuan and Mr. Zhong Qiushi, please refer to “Appointment and Resignation during the Reporting Period” under section 5.2 of this report.

Save as disclosed above, as at 30 June 2018, the Bank was not aware that any of the directors, supervisors and chief executives of the Bank and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations.

7.4 PENALTY AND INVESTIGATION OF THE BANK, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

There was no investigation or significant penalty imposed on the Bank, its directors, supervisors and senior management during the Reporting Period.

Chapter VII Significant Events

7.5 CONTINUING CONNECTED TRANSACTIONS

In the ordinary course of business, the Bank provides commercial banking services and products to the public in the PRC, including the Bank's directors, supervisors and/or their respective associates. During the Reporting Period, the connected transactions between the Bank and connected persons were conducted in compliance with the normal commercial terms that were not more favourable than those for non-connected transactions of the same types. The transaction terms were fair and reasonable and in the interests of the Bank and its shareholders as a whole. All these transactions were made on normal commercial terms and in the ordinary course of business, and were exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – deposit taking

The Bank takes deposit from its connected persons (including the Bank's directors, supervisors and/or their respective associates) in the ordinary course of business under normal deposits interest rate and normal commercial terms. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank takes deposits from its connected persons in the ordinary course of business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions will constitute exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules, namely, financial assistance provided by a connected person in the form of deposits placed with an issuer for the benefit of the issuer on normal commercial terms (or better to the issuer) where no security over the assets of the issuer is granted in respect of the financial assistance, and thus will be exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary course of business – loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including directors, supervisors and/or their respective associates) in the ordinary course of business and on normal commercial terms with reference to prevailing market rates. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

The Bank offers loans and credit facilities to its connected persons in the ordinary course of business, on normal commercial terms and comparable terms offered to independent third parties. Therefore, these transactions will constitute exempted continuing connected transactions under Rule 14A.87 of the Hong Kong Listing Rules, namely, financial assistance provided by an issuer in its ordinary course of business for the benefit of a connected person on normal commercial terms, and thus will be exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Chapter VII Significant Events

7.5 CONTINUING CONNECTED TRANSACTIONS (Continued)

Commercial banking services in the ordinary course of business – other banking services and products

The Bank provides various commercial banking services and products (including credit/debit cards and wealth management products) to its connected persons (including the Bank's directors, supervisors and/or their respective associates) in the ordinary course of business at normal prescription fees, service fees and charges and on normal commercial terms and conditions. These transactions constitute continuing connected transactions of the Bank under the Hong Kong Listing Rules.

It is expected that none of the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the total annual service and/or product fees paid to the Bank by a particular connected person and its associates will exceed 0.1%. Therefore, these transactions will constitute exempted continuing connected transactions pursuant to Rule 14A.76 of the Hong Kong Listing Rules, and thus will be exempt from the reporting, announcement, annual review, circular and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

7.6 MATERIAL LITIGATIONS AND ARBITRATIONS

To the knowledge of the Bank, as of 30 June 2018, the Bank was involved in the following litigation cases in its ordinary course of business: 36 litigation and arbitration cases pending final judgment, with a total subject matter amount of RMB478 million, including 11 cases (litigations and arbitrations inclusive) against the Bank pending final judgment, with a total subject matter amount of RMB40 million. The Bank made full provisions for doubtful accounts of loans involved in the above cases according to their expected losses in a prudent manner. None of these cases will have any material adverse impact on the Bank's financial position and operating results.

7.7 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

During the Reporting Period, some assets of the Bank had been pledged to other banks and the Ministry of Finance of the PRC as collaterals for a sale and repurchase agreement and treasury deposits. Apart from that, the Bank has no other asset acquisition, disposal or reorganization outside the normal scope of business. Please refer to Note 40 to the financial statements of this interim report for details of the asset pledge of the Bank.

7.8 APPLICATION FOR LISTING OF A SHARES

The 2014 annual general meeting was convened by the Bank on 29 May 2015, at which, among others, the proposal for initial public offering of A shares was considered and approved. The Bank proposed issuing no more than 1,228 million A shares. The relevant resolutions in respect of the A share offering plan and the authorization granted to the Board of Directors to deal with specific matters related to the A share offering were approved by the shareholders at the 2015 and 2016 annual general meetings of the Bank, agreeing to extend the valid period of such resolutions to 27 May 2018.

Chapter VII Significant Events

7.8 APPLICATION FOR LISTING OF A SHARES (Continued)

The Bank published the Announcement on Withdrawal of Application for the A Share Offering on 12 February 2018. Given that further negotiations with certain directors and shareholders of the Bank on certain matters stipulated by relevant laws and regulations and requirements of the CSRC were still needed, the Bank decided to withdraw the application for the A share offering after careful deliberation with the professional parties involved in the A share offering and as approved by the Board of Directors of the Bank. The CSRC decided to terminate the review of the Bank's application for the A share offering on 5 March 2018.

In view of the healthy business operation of the Bank, withdrawing the application for the A share offering will not result in any material adverse impact on the financial position or operation of the Bank. The Bank will make its best effort to resume the application process of the A share offering.

For details of the A share offering, please refer to the announcements dated 6 May 2015, 29 June 2015, 24 September 2015, 28 March 2016, 27 March 2017, 18 April 2017, 26 December 2017 and 12 February 2018 and the circulars dated 13 May 2015, 11 April 2016 and 5 May 2017 of the Bank.

7.9 THE PUBLIC FLOAT OF H SHARES

During the Reporting Period and until the Latest Practicable Date, the public float of the Bank's H Shares has been continuously below the minimum of 25% as required by Rule 8.08(1)(a) of the Hong Kong Listing Rules.

According to the resolution of the Board, the Bank is actively considering various options so as to restore its public float as soon as practicable, including (i) suggesting the substantial shareholders of the Bank place down their shares in the Bank; (ii) seeking opportunities to conduct placing of H Shares after considering the market conditions in full and with detailed planning; and (iii) making its best effort to resume the application process of the A share offering.

7.10 REVIEW ON INTERIM RESULTS

Ernst & Young, as the external auditor of the Bank, has reviewed the interim financial report (unaudited) of the Bank prepared in accordance with the International Accounting Standards and the disclosure requirements of the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of Directors of the Bank has also reviewed and approved the interim results and financial report of the Bank for the six months ended 30 June 2018.

7.11 PUBLICATION OF INTERIM REPORT

The Bank has prepared its interim report under the International Financial Reporting Standards and the Hong Kong Listing Rules in both Chinese and English versions, which are available on the HKEXnews website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Bank at www.hsbank.com.cn.

In this Interim Report, the financial data for the six months ended 30 June 2017 and 2018 have not been audited; and the financial data for the year ended 31 December 2017 have been audited.

Chapter VIII Interim Financial Report Report On Review Of Interim Financial Information



**To the Board of Directors of Huishang Bank Corporation Limited
(Incorporated in the People's Republic of China with limited liability)**

INTRODUCTION

We have reviewed the interim financial information set out on pages 77 to 184, which comprises the interim condensed consolidated statement of financial position of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2018 and the consolidated statement of profit and loss, and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The 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".

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

SCOPE OF REVIEW

We conducted our review in accordance with 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 interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Ernst & Young
Certified Public Accountants

Hong Kong, 24 August 2018

Condensed Consolidated Income Statement

For the six month period ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Notes	For the six month period ended 30 June	
		2018 Unaudited	2017 Unaudited
Interest income	4	22,241,523	18,117,209
Interest expense	4	(11,198,826)	(8,542,100)
Net interest income		11,042,697	9,575,109
Fee and commission income	5	1,840,806	1,562,550
Fee and commission expense	5	(142,971)	(92,802)
Net fee and commission income		1,697,835	1,469,748
Net trading gains/(losses)	6	475,641	(120,873)
Net gains/(losses) on investment securities	7	74,576	(39,884)
Other operating income/(loss), net	8	151,808	(69,263)
Operating income		13,442,557	10,814,837
Operating expenses	9	(2,950,896)	(2,543,043)
Impairment losses on assets	11	(5,407,984)	(3,482,035)
Operating profit		5,083,677	4,789,759
Share of profits of associates		66,712	74,784
Profit before income tax		5,150,389	4,864,543
Income tax expense	12	(855,427)	(963,301)
Profit for the year		4,294,962	3,901,242
Net profit attributable to:			
Shareholders of the Bank		4,273,256	3,780,300
Non-controlling interests		21,706	120,942
		4,294,962	3,901,242
Earnings per share attributable to the shareholders of the Bank (express in RMB per share)			
Basic/Diluted	13	0.39	0.34

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

Condensed Consolidated Statement of Comprehensive Income

For the six month period ended 30 June 2018

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	For the six month period ended 30 June	
		2018 Unaudited	2017 Unaudited
Profit for the period		4,294,962	3,901,242
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Net gains on investments in equity instruments designated at fair value through other comprehensive income		38,884	–
Less: associated impact of income tax		(9,721)	–
Subtotal		29,163	–
Items that may be reclassified subsequently to profit or loss			
– Net gains on investments in debt instruments measured at fair value through other comprehensive income	41	858,001	–
– Net fair value losses on available for sale financial assets	41	–	(425,185)
Less: associated impact of income tax	41	(214,500)	106,296
Subtotal		643,501	(318,889)
Other comprehensive income for the period, net of tax		672,664	(318,889)
Total comprehensive income for the period		4,967,626	3,582,353
Total comprehensive income attributable to:			
Equity holders of the Bank		4,945,920	3,461,411
Non-controlling interests		21,706	120,942
		4,967,626	3,582,353

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Assets			
Cash and balances with central bank	14	85,472,060	92,357,873
Deposits with banks and other financial institutions	15	11,836,283	9,699,833
Placements with banks and other financial institutions	16	4,719,461	3,553,288
Financial assets at fair value through profit or loss	17	105,133,868	2,695,099
Derivative financial assets	18	481,002	67,479
Financial assets held under resale agreements	19	28,322,172	36,027,487
Loans and advances to customers	20	337,528,030	305,208,545
Financial Investment			
– Financial assets at fair value through other comprehensive income	21	83,463,738	–
– Financial assets at amortised cost	21	247,274,014	–
– available-for-sale	21	–	143,305,890
– held-to-maturity	21	–	61,128,401
– debt instruments classified as receivables	21	–	211,647,260
Investment in associates	22	1,027,142	971,050
Property, plant and equipment	23	1,994,185	1,943,330
Deferred tax assets	33	4,767,065	4,724,487
Finance lease receivables	24	31,313,618	26,269,575
Other assets	25	11,875,248	8,500,100
Total assets		955,207,886	908,099,697
Liabilities			
Borrowing from central bank		24,011,946	35,575,527
Deposits from banks and other financial institutions	27	99,331,942	95,814,599
Placements from banks and other financial institutions	28	41,813,381	25,427,912
Derivative financial liabilities	18	93,452	747,449
Financial assets sold under repurchase agreements	29	42,020,593	40,855,148
Deposits from customers	30	532,551,741	512,808,182
Taxes payable	31	1,053,317	2,822,630
Debt securities issued	34	130,779,580	115,180,357
Other liabilities	32	19,026,448	19,655,807
Total liabilities		890,682,400	848,887,611
Equity			
Share capital	35	11,049,819	11,049,819
Other equity instruments	35	5,990,090	5,990,090
Capital reserve	35	6,760,445	6,751,041
Surplus reserve	36	8,695,663	7,953,301
General reserve	36	8,117,707	7,722,527
Other comprehensive income	41	23,489	(869,997)
Retained earnings		21,914,975	19,106,524
Equity attributable to shareholders of the Bank		62,552,188	57,703,305
Non-controlling interests		1,973,298	1,508,781
Total equity		64,525,486	59,212,086
Total equity and liabilities		955,207,886	908,099,697

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

Approved and authorized for issue by the Board of Directors on 24 August 2018.

Wu Xuemin

Chairman

Zhang Renfu

President

Li Dawei

Head of Finance Department

Condensed Consolidated Statement of Changes in Equity

For the six month period ended 30 June 2018

(All amounts expressed in thousands of RMB unless otherwise stated)

	Equity attributable to shareholders of the Bank								Total equity
	Share capital Note 35	Other equity instruments Note 35	Capital reserve Note 35	Surplus Reserve Note 36	General Reserve Note 36	Other comprehensive income Note 41	Retained Earnings	Non-controlling interests	
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(869,997)	19,106,524	1,508,781	59,212,086
Changes in accounting policy – the impact of IFRS 9 (1.1.1.1)	-	-	-	-	-	220,822	(51,018)	-	169,804
As at 1 January 2018	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(649,175)	19,055,506	1,508,781	59,381,890
(1) Comprehensive income									
Profit for the period	-	-	-	-	-	-	4,273,256	21,706	4,294,962
Other comprehensive income, net of tax	-	-	-	-	-	647,257	-	-	647,257
Asset impairment through other comprehensive benefits						25,407			25,407
Total comprehensive income for the period	-	-	-	-	-	672,664	4,273,256	21,706	4,967,626
(2) Profit distribution									
Dividends	-	-	-	-	-	-	(276,245)	(5,665)	(281,910)
Appropriation to surplus reserve	-	-	-	742,362	-	-	(742,362)	-	-
Appropriation to general reserve	-	-	-	-	395,180	-	(395,180)	-	-
(3) Changes in share capital									
Increase capital to subsidiary company	-	-	9,404	-	-	-	-	448,476	457,880
As at 30 June 2018	11,049,819	5,990,090	6,760,445	8,695,663	8,117,707	23,489	21,914,975	1,973,298	64,525,486
As at 1 January 2017	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,456,586	1,311,917	53,183,318
Comprehensive income									
Profit for the period	-	-	-	-	-	-	7,614,884	196,864	7,811,748
Other comprehensive income, net of tax	-	-	-	-	-	(749,250)	-	-	(749,250)
Total comprehensive income for the period	-	-	-	-	-	(749,250)	7,614,884	196,864	7,062,498
Changes in share capital									
Profit distribution									
Dividends	-	-	-	-	-	-	(1,033,730)	-	(1,033,730)
Appropriation to surplus reserve	-	-	-	1,417,004	-	-	(1,417,004)	-	-
Appropriation to general reserve	-	-	-	-	1,514,212	-	(1,514,212)	-	-
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,722,527	(869,997)	19,106,524	1,508,781	59,212,086
As at 1 January 2017	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,456,586	1,311,917	53,183,318
(1) Comprehensive income									
Profit for the period	-	-	-	-	-	-	3,780,300	120,942	3,901,242
Other comprehensive income, net of tax	-	-	-	-	-	(318,889)	-	-	(318,889)
Total comprehensive income for the period	-	-	-	-	-	(318,889)	3,780,300	120,942	3,582,353
(2) Changes in share capital									
(3) Profit distribution									
Dividends	-	-	-	-	-	-	(674,039)	-	(674,039)
Appropriation to surplus reserve	-	-	-	674,642	-	-	(674,642)	-	-
Appropriation to general reserve	-	-	-	-	1,514,063	-	(1,514,063)	-	-
As at 30 June 2017	11,049,819	5,990,090	6,751,041	7,210,939	7,722,378	(439,636)	16,374,142	1,432,859	56,091,632

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

Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 June 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	For the six month period ended 30 June	
	2018	2017
	Unaudited	Unaudited
Cash flows from operating activities:		
Profit before income tax	5,150,389	4,864,543
Adjustments:		
Impairment losses on assets	5,407,984	3,482,035
Recovery of written-off loans	252,174	220,963
Depreciation and amortization	208,947	213,468
Net (gains)/losses on disposals of property, plant and equipment	924	(9,784)
Net losses on de-recognition of investment securities	(74,576)	39,884
Fair value changes in financial assets at fair value through profit or loss and derivatives	(850,526)	456,053
Share of results of associates	(66,712)	(74,784)
Interest income from investment securities	(8,621,634)	(9,522,790)
Interest expense from debt securities issued	2,652,662	2,004,929
Net changes in operating assets:		
Net decrease in balances with the central bank	5,335,820	910,452
Net decrease/(increase) in deposits and placements with banks and other financial institutions	(20,771)	6,843,790
Net decrease/(increase) in financial assets at fair value through profit or loss	18,586,404	(2,742,771)
Net decrease/(increase) in financial assets held under resale agreements	7,700,728	(4,416,820)
Net increase in loans and advances to customers	(34,005,621)	(22,081,161)
Net increase in finance lease receivables	(5,302,455)	(4,770,734)
Net increase in other assets	(3,732,719)	(3,725,017)
Net changes in operating liabilities:		
Net increase/(decrease) in deposits and placements from banks and other financial institutions	19,902,812	(1,520,681)
Net decrease in borrowing from central bank	(11,563,581)	(1,086,200)
Net increase/(decrease) in financial assets sold under repurchase agreements	1,165,445	(4,035,050)
Net increase in deposits from customers	19,743,559	49,065,579
Net increase/(decrease) in other liabilities	(1,400,255)	6,198,925
Income taxes paid	(3,041,089)	(2,192,466)
Net cash inflow from operating activities	17,427,909	18,122,363

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

Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 June 2018

(All amounts expressed in thousands of RMB unless otherwise stated)

	For the six month period ended 30 June	
	2018	2017
	Unaudited	Unaudited
Cash flows from investing activities:		
Dividends received	10,620	8,731
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	217	35,141
Purchase of property, plant and equipment, intangible assets and other long-term assets	(243,524)	(185,688)
Cash received from investment securities interest income	8,662,650	9,510,982
Cash received from sale and redemption of investment securities	55,317,638	89,571,583
Purchase of investment securities	(93,017,756)	(129,488,119)
Net cash outflow from investing activities	(29,270,155)	(30,547,370)
Cash flows from financing activities:		
Proceeds from issuance of debt securities	100,360,000	91,571,884
Cash received from accepting investment	457,880	–
Dividends and interests paid on debt issued	(2,423,077)	(1,459,793)
Cash paid relating to debt repayment	(84,756,444)	(85,431,106)
Net cash inflow from financing activities	13,638,359	4,680,985
Impact on cash and cash equivalents resulted from exchange rate changes	(32,115)	(152,025)
Net (decrease)/increase in cash and cash equivalents	1,763,998	(7,896,047)
Cash and cash equivalents at beginning of period	27,280,446	28,774,471
Cash and cash equivalents at end of period (Note 43)	29,044,444	20,878,424

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

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

IFRS 9	<i>Financial Instruments</i>
IFRS 15 and Amendments	<i>Revenue from Contracts with Customers</i>
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>

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

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

Except for the adoption of IFRS 9, the adoption of the above criteria, amendments and explanations does not have a significant impact on the group’s operating results, financial condition and consolidated earnings.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

1.1.1 IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project to replace IAS 39 Financial Instruments. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

Classification and measurement

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

Business model

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

Characteristics of the contractual cash flows

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

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

1.1.1 IFRS 9 – Financial Instruments (Continued)

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from “incurred loss model” to “expected credit loss model” (“ECL model”) and this way of measurement applies to financial assets measured at amortised cost, measured at fair value with changes taken to other comprehensive income, and loan commitments and financial guarantee contracts. Specific information see note 47. 1.1.

Hedge accounting

The new hedge accounting model aims to provide a better link among an entity’s risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The Group chose to adopt the new hedge accounting requirements in IFRS 9 from 1 January 2018.

The impacts of transition to IFRS 9

Considering the impact of these standards on the consolidated financial statements, the Group will record an adjustment to 1 January 2018 shareholders’ equity at the adoption date, but will not restate comparative periods. The impact of the Group’s adoption of IFRS 9 is disclosed as follows.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

1.1.1 IFRS 9 – Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balance in Financial Statement from IAS 39 to IFRS 9

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	IAS 39 measurement		Re-classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Financial assets							
Cash and balances with central bank	L&R	92,357,873	-	-	-	92,357,873	AC
Deposits with banks and other							
financial institutions	L&R	9,699,833	-	(7,551)	-	9,692,282	AC
Placements with banks and other financial							
institutions	L&R	3,553,288	-	(4,932)	-	3,548,356	AC
Financial assets held under resale agreements	L&R	36,027,487	-	(105,103)	-	35,922,384	AC
Loans and advances to customers	L&R	305,208,545	-	463,890	(15,526)	305,656,909	AC+ FVOCI
To: Loans and advances to customers at FVOCI			15,015,442				FVOCI
From: Loans and advances to customers at AC			(15,015,442)				AC
Financial Investment – debt instruments							
classified as receivables	L&R	211,647,260	(211,647,260)			N/A	AC
To: Financial assets at AC			151,770,118				AC
To: Financial assets at FVPL			59,877,142				FVPL

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

1.1.1 IFRS 9 – Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balance in Financial Statement from IAS 39 to IFRS 9 (Continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows: (Continued)

	IAS 39 measurement		Re-classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Financial investments – available-for-sale	AFS	143,305,890	(143,305,890)	-		N/A	
To: Financial assets at AC			10,181,806				AC
To: Debt instruments at FVOCI			71,185,098				FVOCI
To: Equity instruments FVOCI			9,500				FVOCI
To: Financial assets at FVPL			61,929,486				FVPL
Financial investments – held-to-maturity	HTM	61,128,401	(61,128,401)			N/A	
To: Financial assets at AC			61,128,401				AC
Financial investments – finance lease receivables	L&R	26,269,575	-			26,269,575	AC

Note:

L&R	Loans and receivables
AFS	Available for sale
HTM	Held to maturity
AC	Amortised cost
FVPL	Fair value through profit or loss
FVOCI	Fair value through other comprehensive income
ECL	Expected credit loss
N/A	Not applicable

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

1.1.1 IFRS 9 – Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balance in Financial Statement from IAS 39 to IFRS 9 (Continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows: (Continued)

	IAS 39 measurement		Re-classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Financial assets at amortised cost		N/A	223,080,324	452,923	-	223,533,247	AC
From: Financial investments – AFS			(10,181,806)	(217,020)			
From: Financial investments – HTM			(61,128,401)	(146,866)			
From: Financial investments – L&R			(151,770,117)	816,809			
Debt instruments at FVOCI		N/A	71,185,099	-	-	71,185,099	FVOCI
From: Financial investments – AFS			(71,185,099)				
Equity instruments at FVOCI		N/A	9,500	-	22,942	32,442	FVOCI
From: Financial investments – AFS (Equity instruments)			(9,500)				

	IAS 39 measurement		Re-classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Financial assets at FVPL	FVPL	2,695,099	121,806,628	-	(368,688)	124,133,039	FVPL
From: Financial investments – AFS	AFS		(61,929,486)		(260,237)		
From: Financial investments – L&R	L&R		(59,877,142)		(108,451)		
Derivative financial assets	FVPL	67,479	-	-	-	67,479	FVPL
Other financial assets		16,138,967	-	(1,642)	(56,601)	16,080,724	
Include: Deferred tax		4,724,487	-		(56,601)	4,667,886	
Total assets		908,099,697	-	797,585	(417,873)	908,479,409	

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

1.1.1 IFRS 9 – Financial Instruments (Continued)

1.1.1.1 Transition disclosures of the balance in Financial Statement from IAS 39 to IFRS 9 (Continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows: (Continued)

	IAS 39 measurement		Remeasurement		IFRS 9	
	Category	Amount	ECL	Other	Amount	Category
Borrowing from central bank	AC	35,575,527	-	-	35,575,527	AC
Deposits from banks and other financial institutions	AC	95,814,599	-	-	95,814,599	AC
Financial assets sold under repurchase agreements	AC	40,855,148	-	-	40,855,148	AC
Placements from banks and other financial institutions	AC	25,427,912	-	-	25,427,912	AC
Derivative financial liabilities	FVPL	747,449	-	-	747,449	FVPL
Deposits from customers	AC	512,808,182	-	-	512,808,182	AC
Debt securities issued	AC	115,180,357	-	-	115,180,357	AC
Provision – impairment allowance of credit commitments	AC	-	209,908	-	209,908	AC
Other liabilities	N/A	22,478,437	-	-	22,478,437	N/A
Total liabilities		848,887,611	209,908		849,097,519	

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

1.1.1 IFRS 9 – Financial Instruments (Continued)

1.1.1.2 The impact of transition from IAS 39 to IFRS 9 on other comprehensive income and retained earnings is, as follows:

	Other comprehensive income and retained earnings
Other comprehensive income	
Closing balance under IAS 39 at 31 December 2017	(869,997)
Reclassification of investment securities from HTM and L&R to FVPL	(15,527)
Reclassification of investment securities from AFS to FVOCI	22,942
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	287,014
Deferred tax in relation to the above	(73,607)
Opening balance under IFRS 9 at 1 January 2018	(649,175)
Retained earnings	
Closing balance under IAS 39 at 31 December 2017	34,782,352
Reclassification of investment securities from AFS to FVPL	(260,237)
Reclassification of investment securities from AFS to FVOCI	
Reclassification of investment securities from HTM and L&R to FVPL	(108,450)
Reclassification of investment securities from FVPL to AC	
Recognition of IFRS 9 ECLs	300,663
Deferred tax in relation to the above	17,006
Opening balance under IFRS 9 at 1 January 2018	34,731,334
Total change in equity due to adopting IFRS 9	169,804

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

1.1.1 IFRS 9 – Financial Instruments (Continued)

1.1.1.3 The impact of transition from IAS 39 to IFRS 9 on impairment balance is, as follows:

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 at 31 December 2017 to the ECL allowances under IFRS 9 at 1 January 2018:

Measurement Category	Loan loss provision under IAS 39/IAS 37 at 31 December			ECLs under IFRS 9 at 1 January 2018
	2017	Re-classification	Re-measurement	
L&R investment securities per IAS 39/ financial assets at AC under IFRS 9				
Placements with and loans to banks and other financial institutions	3	–	7,551	7,554
Financial assets held under resale agreements	–	–	105,103	105,103
Placements with banks and other financial institutions	–	–	4,932	4,932
Loans and advances to customers, net	9,291,230	–	(269,516)	9,021,714
Financial investments	4,585,482	–	(599,786)	3,985,696
HTM investment securities per IAS 39/ financial assets at AC under IFRS 9				
Financial investments	–	–	146,866	146,866
Loans and advances to customers per IAS 39/financial assets at FVOCI under IFRS 9				
Loans and advances to customers, net	194,374	–	(169,012)	25,362
AFS investment securities per IAS 39/ financial assets at FVOCI under IFRS 9				
Financial investments	–	–	261,653	261,653
Credit commitments	–	–	209,908	209,908
Others	143,946	–	1,642	145,588
Finance lease receivables	551,096	–	–	551,096
Total	14,766,131	–	(300,659)	14,465,472

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

		Effective for annual periods beginning on or after
IFRS 16	Leases	1 January 2019

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRS Interpretations Committee Interpretation No. 4 Determining whether an Arrangement contains a Lease, Standing Interpretations Committee (“SIC”) Interpretation No. 15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. In 2018, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018 (Continued)

IFRS 10 and IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

In addition, besides the amendments to IFRS 12 effective for annual period beginning on or after 1 January 2017, the Annual Improvements 2014-2016 Cycle issued in December 2016 set out amendments to IFRS 1 and IAS 28, which are effective for annual period beginning on or after 1 January 2018. There are no material changes to the accounting policies of the Group as a result of these amendments.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions are in accordance with those used for preparing and presenting the condensed consolidated financial statements of the Group in 2017, except for the explanation of financial asset impairment described in note 1.1.1.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

3 THE BANK'S CONDENSED STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY

	As at 30 June 2018	As at 31 December 2017
Assets		
Cash and balances with central bank	85,093,206	91,946,124
Deposits with banks and other financial institutions	9,809,303	8,246,628
Placements with banks and other financial institutions	5,219,461	3,553,288
Financial assets at fair value through profit or loss	105,133,868	2,695,099
Derivative financial assets	481,002	67,479
Financial assets held under resale agreements	28,322,172	36,027,487
Loans and advances to customers	334,977,907	302,624,283
Financial Investment		
– financial assets at fair value through other comprehensive income	83,463,738	–
– financial assets at amortised cost	247,274,014	–
– available-for-sale	–	143,305,890
– held-to-maturity	–	61,128,401
– Debt instruments classified as receivables	–	212,647,260
Investment in subsidiaries	1,809,133	1,122,313
Investment in associates	1,027,142	971,050
Property, plant and equipment	1,947,534	1,905,682
Deferred tax assets	4,705,860	4,665,991
Other assets	11,581,586	8,252,612
Total assets	920,845,926	879,159,587
Liabilities		
Loan from Central Bank	24,011,946	35,575,527
Deposits from banks and other financial institutions	99,445,456	95,956,890
Placements from banks and other financial institutions	16,802,591	5,042,912
Derivative financial liabilities	93,452	747,449
Financial assets sold under repurchase agreements	42,020,593	40,855,148
Deposits from customers	528,963,364	508,780,021
Taxes payable	1,021,149	2,736,093
Debt securities issued	130,779,580	115,180,357
Other liabilities	15,555,030	16,943,206
Total liabilities	858,693,161	821,817,603
Equity		
Share capital	11,049,819	11,049,819
Other equity instruments	5,990,090	5,990,090
Capital reserve	6,751,041	6,751,041
Surplus reserve	8,695,663	7,953,301
General reserve	7,881,346	7,637,817
Other comprehensive Income	23,489	(869,997)
Retained earnings	21,761,317	18,829,913
Total equity	62,152,765	57,341,984
Total equity and liabilities	920,845,926	879,159,587

Wu Xuemin

Chairman

Zhang Renfu

President

Li Dawei

Head of Finance Department

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

3 THE BANK'S CONDENSED STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CHANGES IN EQUITY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserve	General reserve	Other comprehensive income	Retained earnings	Total equity
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(869,997)	18,829,913	57,341,984
Changes in accounting policies – Impact of adopting IFRS 9						220,822	(51,018)	169,804
As at 1 January 2018	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(649,175)	18,778,895	57,511,788
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	4,244,558	4,244,558
Other comprehensive income, net of tax	-	-	-	-	-	647,257	-	647,257
Asset impairment through other comprehensive benefits	-	-	-	-	-	25,407	-	25,407
Total comprehensive income for the year	-	-	-	-	-	672,664	4,244,558	4,917,222
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(276,245)	(276,245)
Appropriation to surplus reserve	-	-	-	742,362	-	-	(742,362)	-
Appropriation to general reserve	-	-	-	-	243,529	-	(243,529)	-
As at 30 June 2018	11,049,819	5,990,090	6,751,041	8,695,663	7,881,346	23,489	21,761,317	62,152,765
As at 1 January 2017	11,049,819	5,990,090	6,751,041	6,536,297	6,208,315	(120,747)	15,286,527	51,701,342
(1) Comprehensive income								
Profit for the year	-	-	-	-	-	-	7,423,622	7,423,622
Other comprehensive income, net of tax	-	-	-	-	-	(749,250)	-	(749,250)
Total comprehensive income for the year	-	-	-	-	-	(749,250)	7,423,622	6,674,372
(2) Profit distribution								
Dividends	-	-	-	-	-	-	(1,033,730)	(1,033,730)
Appropriation to surplus reserve	-	-	-	1,417,004	-	-	(1,417,004)	-
Appropriation to general reserve	-	-	-	-	1,429,502	-	(1,429,502)	-
As at 31 December 2017	11,049,819	5,990,090	6,751,041	7,953,301	7,637,817	(869,997)	18,829,913	57,341,984

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

4 NET INTEREST INCOME

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Interest income		
Balances with central bank	600,212	597,926
Deposits and placements with banks and other financial institutions	603,725	424,640
Loans and advances to customers	8,151,298	6,897,232
Financial investments at amortised cost and fair value through other comprehensive income	8,621,634	8,516,654
Financial investments at fair value through profit or loss	3,434,734	1,006,136
Finance lease	829,920	674,621
	22,241,523	18,117,209
Interest expense		
Borrowing from central bank (a)	(407,080)	(173,430)
Deposits and placements from banks and other financial institutions	(4,092,297)	(2,560,838)
Deposits from customers	(4,046,787)	(3,802,903)
Debt securities issued	(2,652,662)	(2,004,929)
	(11,198,826)	(8,542,100)
Net interest income	11,042,697	9,575,109

- (a) Borrowing from central bank includes general borrowing from PBOC, rediscounted bills held under resale agreements, closed anti-repo and lending facility with PBOC.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

5 NET FEE AND COMMISSION INCOME

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Fee and commission income		
Settlement and clearing fees	29,952	39,873
Guarantee and commitment fees	107,046	100,960
Investment banking fees	516,582	259,978
Custody fees	259,985	239,667
Bank card fees	288,054	225,486
Acquiring business fees	11,637	10,250
Agency commissions	587,126	656,649
Others	40,424	29,687
	1,840,806	1,562,550
Fee and commission expense	(142,971)	(92,802)
Net fee and commission income	1,697,835	1,469,748

6 NET TRADING GAINS/(LOSSES)

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Net gains/(losses) from foreign exchange	83,624	(136,916)
Net gain from interest rate instruments	392,017	16,043
	475,641	(120,873)

Net gains/(losses) from financial investments mainly include gains arising from fair value changes of financial assets at fair value through profit or loss.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

7 NET GAINS/(LOSSES) ON FINANCIAL INVESTMENTS

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Net gains from financial assets at fair value through other comprehensive income	75,497	–
Net losses from financial assets at amortised cost	(921)	–
Net losses from investment securities available for sale	–	(39,080)
Other	–	(804)
Total	74,576	(39,884)

For the six month period ended 30 June 2018, net income on the derecognition of financial assets at amortised cost was from business transactions.

8 OTHER OPERATING INCOME, NET

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Net losses on bills	(10,877)	(114,785)
Others	162,685	45,522
	151,808	(69,263)

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

9 OPERATING EXPENSES

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Staff cost (Note 10)	(1,581,006)	(1,571,140)
Business tax and surcharges	(100,104)	(72,832)
General operating and administrative expenses	(852,188)	(525,637)
Operating lease rental expenses	(182,108)	(153,203)
Depreciation (Note 23)	(136,857)	(150,491)
Amortization expenses for long-term prepaid expenses	(41,449)	(40,737)
Amortization expenses for intangible assets (Note 25(d))	(26,266)	(20,391)
Amortization expenses for land use rights (Note 25(c))	(4,375)	(1,849)
Others	(26,543)	(6,763)
	(2,950,896)	(2,543,043)

10 STAFF COST

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Salaries, bonuses, allowances and subsidies	(1,116,642)	(1,199,508)
Pension costs	(198,356)	(157,075)
Labor union fee and staff education fee	(26,385)	(29,214)
Other social insurance and welfare costs	(239,623)	(185,343)
	(1,581,006)	(1,571,140)

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

11 IMPAIRMENT LOSSES ON ASSETS

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Loans and advances		
– at amortised cost		
– Stage I	(919,279)	–
– Stage II	(364,645)	–
– Stage III	(877,264)	–
Loans and advances		
– at fair value through other comprehensive income		
– Stage I	(33,002)	–
Financial investments		
– financial assets at amortised cost	(2,576,162)	–
– financial assets at fair value through other comprehensive income	(874)	–
Subtotal	(4,771,226)	–
Deposits with banks and other financial institutions	(13,576)	–
Placements with and loans to banks and other financial institutions	(6,081)	–
Financial assets held under resale agreements	100,516	–
Credit commitments	(486,601)	–
Finance lease receivables (note 24)	(258,412)	–
Other receivables	27,396	–
Total	(5,407,984)	–

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Loans and advances to customers		
– Collectively assessed	–	(1,764,963)
– Individually assessed	–	(628,728)
Debt instruments classified as receivables	–	(1,457,887)
Available-for-sale financial assets	–	562,891
Finance lease receivables	–	(113,349)
Other receivables	–	(79,999)
Total	–	(3,482,035)

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

12 INCOME TAX EXPENSE

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Current income tax		
– PRC mainland income tax	(1,178,828)	(1,667,229)
Deferred tax (Note 33)	323,401	703,928
	(855,427)	(963,301)

The provision for China mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	For the six month period ended 30 June	
	2018 Unaudited	2017 Unaudited
Profit before tax	5,150,389	4,864,543
Tax calculated at applicable statutory tax rate of 25%	(1,287,597)	(1,216,136)
Tax effect arising from income not subject to tax ^(a)	457,364	277,603
Tax effect of items such as expenses not deductible for tax purposes ^(b)	(14,347)	(18,888)
Tax filing differences from previous year	(10,847)	(5,880)
Income tax expense	(855,427)	(963,301)

(a) Non-taxable income mainly represents interest income arising from PRC treasury bonds which are tax free according to PRC tax regulations.

(b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

13 EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

- (a) Basic earnings per share are calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average ordinary shares in issue during the period.

	For the six month period ended 30 June	
	2018	2017
	Unaudited	Unaudited
Net profit attributable to shareholders of the Bank (in RMB thousands)	4,273,256	3,780,300
Weighted average number of ordinary shares in issue (in thousands)	11,049,819	11,049,819
Basic earnings per share (in RMB Yuan)	0.39	0.34

(b) **Diluted earnings per share**

For the six month period ended 30 June 2018 and for the year ended 2017, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

When calculating the basic earnings per share of common stock, the dividend of preferred stock issued in the current year shall be deducted from the net profit attributable to the shareholders of the bank. In 2016, the bank issued non-cumulative preferred shares. The bank has not yet declared a preferred stock dividend for the six month period ended 30 June 2018.

The convertible character of preferred stock allows the bank to exist or have common stock available. As of June 30, 2018, the trigger event of the stock transfer did not occur, and the rotation characteristics of the preferred stock had no impact on the calculation of basic and diluted earnings per share for the six month period ended 30 June 2018.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

14 CASH AND BALANCES WITH THE CENTRAL BANK

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Cash	1,210,963	1,292,408
Statutory reserves ^(a)	68,167,775	73,508,127
Surplus reserves ^(b)	16,093,322	17,557,338
	85,472,060	92,357,873

- (a) The Group places statutory deposit reserves with the People's Bank of China ("PBOC"). The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates of the bank were as follows:

	As at 30 June 2018	As at 31 December 2017
Statutory reserve rate for RMB deposits	12.5%	13.5%
Statutory reserve rate for foreign currency deposits	5.0%	5.0%

- (b) Surplus deposit reserves maintained with the PBOC is mainly for clearing purpose.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Banks in PRC mainland	7,699,049	6,697,192
Banks in PRC mainland non-bank financial institutions	47,110	47,136
Banks in other countries and regions	4,111,254	2,955,508
	11,857,413	9,699,836
Less: allowances for impairment losses	(21,130)	(3)
	11,836,283	9,699,833

Deposits with banks and other financial institutions were in State I, allowance for impairment losses were RMB21.13 million (1 January 2018: RMB7.55 million).

16 PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Banks in PRC mainland	2,580,474	1,502,866
Other financial institutions in PRC mainland	2,150,000	2,050,422
Less: allowances for impairment losses	(11,013)	–
	4,719,461	3,553,288

Placement with banks and other financial institutions were in State I, allowance for impairment losses were RMB11.01 million (1 January 2018: RMB4.93 million).

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Listed outside Hong Kong		
– Government bonds	195,324	174,431
– Other debt securities	827,596	1,587,454
– Interbank certificates of deposit	2,550,511	933,214
Subtotal	3,573,431	2,695,099
Unlisted		
– Asset management plan, trust plan products and others	94,857,407	–
– Non-financing products of financial institutions	6,703,030	–
Subtotal	101,560,437	–
Total	105,133,868	2,695,099

As at 30 June 2018 and 31 December 2017, there was no significant limitation on the ability of the Group and the Bank to dispose financial assets at fair value through profit or loss. Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Financial assets at fair value through profit or loss analyzed by categories of issuer are as follows:

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Analyzed by categories of issuer:		
– Government	195,324	174,431
– Banks and other financial institutions	104,760,589	1,994,935
– Legal entities	177,955	525,733
	105,133,868	2,695,099

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

18 DERIVATIVE FINANCIAL INSTRUMENTS

	Notional Amount	As at 30 June 2018	
		Unaudited	
		Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	580,676	511	–
– Currency swaps	16,518,717	457,173	(75,314)
– Interest rate swaps	3,880,000	23,318	(18,138)
	20,979,393	481,002	(93,452)

	Notional Amount	As at 31 December 2017	
		Audited	
		Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading			
– Currency forwards	54,596	60	–
– Currency swaps	15,595,701	46,563	(745,165)
– Interest rate swaps	1,950,000	20,856	(2,284)
	17,600,297	67,479	(747,449)

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
By collateral type:		
Securities held under resale	28,111,636	35,927,634
Bills held under resale	115,270	–
Noble metal	99,853	99,853
Less: allowances for impairment losses	(4,587)	–
	28,322,172	36,027,487

Financial assets held under resale agreements were in State I, allowance for impairment losses were RMB4.59 million, (1 January 2018: RMB105.10 million).

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Loans and advances measured at amortised cost		
– Corporate loans	209,648,380	187,110,793
– Personal loans	125,050,751	112,373,541
– Discounted bills	–	15,209,815
Subtotal	334,699,131	314,694,149
Loans and advances measured at fair value through other comprehensive income		
– Discounted bills	13,061,637	–
Subtotal	13,061,637	–
Total loans and advances	347,760,768	314,694,149
Less: Allowance for impairment losses	(10,232,738)	(9,485,604)
Loans and advances to customers, net	337,528,030	305,208,545

(b) Loans and advances to customers are assessed as follows:

	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	Total Unaudited
As at 30 June 2018				
Total loans and advances to customers	331,985,862	12,230,985	3,543,921	347,760,768
Allowance for impairment losses-Loans and advances measured at amortised cost	(4,096,356)	(3,152,922)	(2,983,460)	(10,232,738)
Loans and advances to customers, net	327,889,506	9,078,063	560,461	337,528,030
				As at 31 December 2017 Audited
Total loans and advances to customers				314,694,149
Allowance for impairment losses-Loans and advances measured at amortised cost				(9,485,604)
Loans and advances to customers, net				305,208,545

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Changes in loans and advances to customers impairment provisions are shown below:

Corporate loans

	For the six month period ended 30 June 2018			Total
	Unaudited			
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	
As at 1 January				7,091,068
Impact of adopting IFRS 9				(47,350)
Opening balance under IFRS 9	1,545,801	3,063,618	2,434,299	7,043,718
Addition	736,334	362,588	680,481	1,779,403
Reversal	-	-	(20,391)	(20,391)
Stage conversion				
Convert to Stage I	312,000	(312,000)		
Convert to Stage II	(64,532)	80,217	(15,685)	-
Convert to Stage III	(12,888)	(216,355)	229,243	-
Write-off and transfer out			(957,636)	(957,636)
Recovery of loans and advances written off			189,025	189,025
As at 30 June	2,516,715	2,978,068	2,539,336	8,034,119

Retail loans

	For the six month period ended 30 June 2018			Total
	Unaudited			
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	
As at 1 January				2,394,536
Impact of adopting IFRS 9				(416,540)
Opening balance under IFRS 9	1,380,693	241,640	355,663	1,977,996
Addition	182,945	2,057	196,783	381,785
Reversal			(6,299)	(6,299)
Stage conversion				
Convert to Stage I	18,999	(16,627)	(2,372)	-
Convert to Stage II	(1,709)	3,064	(1,355)	-
Convert to Stage III	(1,287)	(55,280)	56,567	-
Write-off and transfer out			(218,012)	(218,012)
Recovery of loans and advances written off			63,149	63,149
As at 30 June	1,579,641	174,854	444,124	2,198,619

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Changes in loans and advances to customers impairment provisions are shown below: (Continued)

Retail loans (Continued)

	As at 31 December 2017	
	Corporate loans	Individual loans
Balance at beginning of the period/year	6,013,332	2,021,175
Impairment allowance charged	3,425,022	838,089
Unwinding of discount on allowance	(50,770)	(6,489)
Recoveries	140,263	75,483
Written-offs	(2,436,779)	(533,722)
Balance at end of the period/year	7,091,068	2,394,536

21 INVESTMENT SECURITIES

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Financial assets at fair value through other comprehensive income		
Debt securities		
Listed outside Hong Kong		
– Debt securities	60,771,094	–
– Interbank certificates of deposit	22,621,318	–
Subtotal	83,392,412	–
Equity securities		
Unlisted		
– equity investment	71,326	–
Subtotal	71,326	–
Total	83,463,738	–

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Financial assets at amortised cost		
Listed outside Hong Kong		
– Debt securities	61,723,801	–
Unlisted		
– Beneficial rights in trust and asset management plans	192,258,933	–
– Non-guaranteed wealth management products managed by other banks	–	–
Subtotal	253,982,734	–
Allowance for impairment losses	(6,708,720)	–
Financial assets at amortised cost, net	247,274,014	–

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

21 INVESTMENT SECURITIES (Continued)

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	–	57,067,186
– Interbank certificates of deposit	–	14,117,912
Unlisted	–	
– Beneficial rights in trust and asset management plans	–	62,415,359
– Non-guaranteed wealth management products managed by other banks	–	10,000,000
– Equity securities	–	9,500
Subtotal	–	143,609,957
Allowance for impairment losses	–	(304,067)
Available-for-sale financial assets, net	–	143,305,890
Held-to-maturity investments	–	
Listed outside Hong Kong	–	
– Debt securities	–	61,128,401
Subtotal	–	61,128,401
Debt instruments classified as receivables		
Unlisted	–	
– Beneficial rights in trust and asset management plans	–	207,944,902
– Guaranteed wealth management products managed by other banks	–	7,850,000
– Debt securities	–	133,772
Subtotal	–	215,928,674
Allowance for impairment losses	–	(4,281,414)
Debt instruments classified as receivables, net	–	211,647,260

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

21 INVESTMENT SECURITIES (Continued)

- (1) Beneficial rights in trust and asset management plans invested by the Group are the usufruct in trusts or asset management plans organized by security companies. The investment decisions of these products are made by the third-party asset managers or custodians. They mainly invest in collective investment products including: (a) Liquid assets: deposits, repurchase agreements, money market funds and other cash management products, bond funds; bonds traded in exchange and inter-bank market, convertible bonds, ABS and ABN, or other qualified highly-liquid assets. (b) Financing assets: the financing forms including entrusted loans, loan assets bought from other financial institutions, specific asset usufruct and etc. (c) Products issued by other financial institutions mainly including non-cash management fixed return products issued by investment funds, trusts, insurance companies, securities companies, commercial banks and etc. The detail of unconsolidated structured entities invested by the Group is in Note 42.

Beneficial rights in trust and asset management plans are analysed by category of underlying assets as follows:

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Financial assets at FVOCI		
Debt instruments		
By issuers		
– Government	36,695,192	–
– Banks and other financial institutions	35,734,004	–
– Legal entities	10,963,216	–
Subtotal	83,392,412	–
Equity instruments	71,326	–
Subtotal	71,326	–
Total	83,463,738	–
Financial assets at AC		
By issuers		
– Government	47,419,365	–
– Banks and other financial institutions	198,407,101	–
– Legal entities	8,156,268	–
Subtotal	253,982,734	–
Less: Allowance for impairment losses	(6,708,720)	–
Financial assets at AC, net	247,274,014	–

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

21 INVESTMENT SECURITIES (Continued)

Investment securities analyzed by issuer as follows:

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Available-for-sale financial assets		
By issuers		
– Government	–	29,322,883
– Banks and other financial institutions	–	102,453,916
– Legal entities	–	11,823,658
Subtotal		143,600,457
Equity securities	–	9,500
Total		143,609,957
Allowance for impairment losses	–	(304,067)
Available-for-sale financial assets, net		143,305,890
Held-to-maturity investments		
By issuers		
– Government	–	48,782,096
– Banks and other financial institutions	–	6,579,001
– Legal entities	–	5,767,304
Held-to-maturity investments, net	–	61,128,401
Debt instrument classified as receivables		
By issuers		
– Government	–	133,772
– Banks and other financial institutions	–	215,794,902
Total		215,928,674
Allowance for impairment losses	–	(4,281,414)
Debt instrument classified as receivables, net	–	211,647,260

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

22 INVESTMENT IN ASSOCIATES

Investments in associates of the Group comprise of ordinary shares of unlisted companies as follows:

As at 30 June 2018

Unaudited

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	30,862,231	25,726,526	758,441	333,555	20%

As at 31 December 2017

Audited

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Huiyin Motor Finance Service Co., Ltd.	PRC	32,708,000	27,852,751	1,564,938	684,910	20%

	Six months ended 30 June 2018	Year ended 31 December 2017
Balance at beginning of the period/year	971,050	538,646
Additions	–	304,000
Cash dividends received	(10,620)	(8,732)
Share of results, net of tax	66,712	137,136
Balance at end of the period/year	1,027,142	971,050

Chery Huiyin Motor Finance Service Co., Ltd. was established in 2009, with a registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20%. With the approval of CBRC Anhui Branch on 24 December 2012, the authorised registered capital of Chery Huiyin Motor Finance Service Co., Ltd. was increased to RMB1 billion. As at 31 December 2014, the Group's share in this associate was RMB200 million or 20%. On 30 September 2014, this company has completed its shareholding reform, and renamed as Chery Huiyin Motor Finance Service. Corporation Limited. In December 2017, the three shareholders of the Company subscribed to 500 million shares in the company with capital injection of RMB1.52 billion, in proportion to their respective shareholding ratio. After the capital increase, the registered capital of the Company increased from RMB1 billion to RMB1.5 billion. After the capital increase, the Group's share in this associate was RMB300 million or 20%.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

23 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2018	1,515,308	67,294	1,482,040	610,952	3,675,594
Additions	1,281	–	61,679	128,326	191,286
Transfers in/(out)	22,085	–	488	(22,573)	–
Disposals	–	(1,137)	(36,930)	–	(38,067)
Other transfers out	–	–	–	(2,433)	(2,433)
As at 30 June 2018	1,538,674	66,157	1,507,277	714,272	3,826,380
Accumulated depreciation					
As at 1 January 2018	(788,726)	(56,007)	(887,531)	–	(1,732,264)
Depreciation charge	(33,643)	(2,342)	(100,872)	–	(136,857)
Disposals	–	1,103	35,823	–	36,926
As at 30 June 2018	(822,369)	(57,246)	(952,580)	–	(1,832,195)
Unaudited					
Net book value					
As at 30 June 2018	716,305	8,911	554,697	714,272	1,994,185

	Buildings	Motor Vehicles	Electronic and other equipment	Construction in progress	Total
Cost					
As at 1 January 2017	1,506,184	66,915	1,321,197	280,629	3,174,925
Additions	9,124	2,876	182,028	360,553	554,581
Transfers in/(out)	–	–	3,938	(30,124)	(26,186)
Disposals	–	(2,497)	(25,123)	–	(27,620)
Other transfers out	–	–	–	(106)	(106)
As at 31 December 2017	1,515,308	67,294	1,482,040	610,952	3,675,594
Accumulated depreciation					
As at 1 January 2017	(616,499)	(52,135)	(787,049)	–	(1,455,683)
Depreciation charge	(172,227)	(5,626)	(122,480)	–	(300,333)
Disposals	–	1,754	21,998	–	23,752
As at 31 December 2017	(788,726)	(56,007)	(887,531)	–	(1,732,264)
Audited					
Net book value					
As at 31 December 2017	726,582	11,287	594,509	610,952	1,943,330

All lands and buildings of the Group are located outside Hong Kong.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

24 FINANCE LEASE RECEIVABLES

As at 30 June 2018

Unaudited	Within 1 year	1-3 years	Over 3 years	Total
Finance lease receivables	17,260,117	17,683,349	850,658	35,794,124
Unrealized revenue	(2,037,529)	(1,572,289)	(61,180)	(3,670,998)
Allowance	(324,241)	(455,329)	(29,938)	(809,508)
Net	14,898,347	15,655,731	759,540	31,313,618

As at 31 December 2017

Audited	Within 1 year	1-3 years	Over 3 years	Total
Finance lease receivables	9,780,047	14,137,818	6,032,935	29,950,800
Unrealized revenue	(515,497)	(342,831)	(2,271,801)	(3,130,129)
Allowance	(7,895)	(534,327)	(8,874)	(551,096)
Net	9,256,655	13,260,660	3,752,260	26,269,575

The changes in the preparation for the devaluation of financing lease is as follows:

	Six month period ended 30 June 2018			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	
As at 1 January				551,096
Impact of adopting IFRS 9				-
Opening balance under IFRS 9	470,584	40,862	39,650	551,096
Addition (Note 11)	157,999	73,691	26,722	258,412
Stage conversion				
Convert to Stage I				
Convert to Stage II	(75,908)	75,908	-	-
Convert to Stage III				
Write-off and transfer out				
Recovery of loans and advances written off				
As at 30 June/31 December	552,675	190,461	66,372	809,508

The Group's finance lease receivables are all managed by its subsidiary Huishang Bank Financial Leasing Co., Ltd.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Interest receivable ^(a)	7,466,076	5,907,415
Other receivables ^(b)	945,472	830,986
Less: impairment allowance ^(e)	(117,063)	(114,997)
Funds to be settled	2,333,271	873,282
Long-term prepaid expenses	230,082	237,114
Land use rights ^(c)	153,215	157,590
Foreclosed assets	463,047	399,902
Less: impairment allowance	(150,238)	(150,238)
Intangible assets ^(d)	158,003	164,015
Others	394,768	223,980
Less: impairment allowance	(1,385)	(28,949)
	11,875,248	8,500,100

(a) Interest receivable

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Investment securities and financial assets at fair value through profit or loss	6,460,597	4,977,660
Loans and advances to customers	705,474	696,658
Placements with and loans and advances to banks, other financial institutions, and the central bank	70,873	50,614
Finance lease	229,132	182,483
	7,466,076	5,907,415

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS (Continued)

(b) Other receivable

The Group's other receivable are analysed by age as follows:

As at 30 June 2018

Unaudited	Within 1 year	1-3 years	Over 3 years	Total
Other receivable	688,026	192,159	65,287	945,472
Allowance for impairment losses	(5,856)	(51,388)	(59,819)	(117,063)
Net	682,170	140,771	5,468	828,409

As at 31 December 2017

Audited	Within 1 year	1-3 years	Over 3 years	Total
Other receivable	643,934	176,719	10,333	830,986
Allowance for impairment losses	(62,733)	(43,164)	(9,100)	(114,997)
Net	581,201	133,555	1,233	715,989

(c) Land use rights

	Six months ended 30 June 2018 Unaudited	Year ended 31 December 2017 Audited
Cost		
Balance at beginning of the period/year	170,863	171,835
Additions	–	25,600
Disposals	–	(26,572)
Balance at end of the period/year	170,863	170,863
Accumulated amortization		
Balance at beginning of the period/year	(13,273)	(11,354)
Additions	(4,375)	(4,570)
Disposals	–	2,651
Balance at end of the period/year	(17,648)	(13,273)
Net book value		
At end of the period/year	153,215	157,590

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

25 OTHER ASSETS (Continued)

(d) Intangible assets

Intangible assets of the Group mainly are computer software.

	Six months ended 30 June 2018 Unaudited	Year ended 31 December 2017 Audited
Cost		
Balance at beginning of the period/year	380,164	284,345
Additions	20,254	69,633
Transfers in	–	26,186
Disposals	(5,280)	–
Balance at end of the period/year	395,138	380,164
Accumulated amortization		
Balance at beginning of the period/year	(216,149)	(174,682)
Additions	(26,266)	(41,467)
Disposals	5,280	–
Balance at end of the period/year	(237,135)	(216,149)
Net book value		
At end of the period/year	158,003	164,015

- (e) The carrying amount of other receivables and other in other assets in Stage I, II and III were: RMB768.66 million, RMB157.51 million, RMB64.96 million (1 January 2018: RMB462.79 million, RMB396.79 million, RMB10.31 million), allowance for impairment losses in in Stage I, II and III were RMB6.82 million, RMB51.71 million, RMB59.92 million (1 January 2018: RMB4.97 million, RMB131.10 million, RMB9.52 million).

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

26 IMPAIRMENT ALLOWANCE (EXCEPT FOR LOANS AND ADVANCES)

	As at 1 January 2018 (After standard conversion)	Additions	Recovery	As at 30 June 2018
Deposits with banks and other financial institutions	(7,554)	(13,576)	-	(21,130)
Placements with banks and other financial institutions	(4,932)	(6,081)	-	(11,013)
Financial assets held under resale agreements	(105,103)	100,516	-	(4,587)
Foreclosed assets	(150,238)	-	-	(150,238)
Financial assets at amortised cost	(4,132,558)	(2,576,162)	-	(6,708,720)
Finance lease receivables	(551,096)	(258,412)	-	(809,508)
Other assets – bad debts	(145,588)	27,396	(256)	(118,448)
	(5,097,069)	(2,726,319)	(256)	(7,823,644)

	As at 1 January 2017	Additions	Recovery	Reversal	Write-off	As at 31 December 2017
Deposits with banks and other financial institutions	(3)	-	-	-	-	(3)
Foreclosed assets	(38)	(150,200)	-	-	-	(150,238)
Financial assets available-for-sale	(892,508)	159,257	-	-	429,184	(304,067)
Financial assets						
Debt instrument classified as receivables	(1,611,771)	(2,669,643)	-	-	-	(4,281,414)
Finance lease receivables	(316,649)	(234,447)	-	-	-	(551,096)
Other receivables	(97,804)	(15,465)	(1,728)	-	-	(114,997)
Other assets – bad debts	-	(28,949)	-	-	-	(28,949)
	(2,918,773)	(2,939,447)	(1,728)	-	429,184	(5,430,764)

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Banks in PRC mainland	24,927,637	29,368,839
Other financial institutions in PRC mainland	74,336,283	66,445,760
Banks outside PRC mainland	68,022	–
	99,331,942	95,814,599

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Banks in PRC mainland	41,813,381	25,427,912

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Securities sold under repurchase agreements	31,845,612	32,326,471
Bills sold under repurchase agreements	6,782,496	4,200,681
Precious metal sold under repurchase agreements	3,392,485	4,327,996
	42,020,593	40,855,148

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

30 DEPOSITS FROM CUSTOMERS

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Corporate demand deposits	236,595,143	224,343,699
Corporate time deposits	131,409,401	144,566,563
Retail demand deposits	52,751,331	48,939,116
Retail time deposits	87,137,510	74,352,685
Other deposits	24,658,356	20,606,119
	532,551,741	512,808,182
Including:		
Pledged deposits held as collateral	24,169,396	20,025,327

31 TAX PAYABLE

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Corporate income tax	640,819	2,503,080
Value-added tax	348,298	245,459
Business tax and surcharges	46,135	32,355
Others	18,065	41,736
	1,053,317	2,822,630

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

32 OTHER LIABILITIES

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Interest payable ^(a)	9,656,302	9,271,288
Dividends payable ^(b)	382,270	187,139
Unearned rent and deposits under lease arrangements ^(c)	3,020,817	2,427,635
Funds to be settled	1,723,836	1,858,279
Asset Securitization	253,460	2,529,965
Salary and welfare payable ^(d)	1,369,363	1,706,324
Entrusted services	184,207	340,225
Long term suspension of customer deposits	166	53,015
Provision	936,388	238,099
– Allowance for litigation losses (Note 38)	230,372	230,372
– Impairment allowance of credit commitments ^(e)	696,509	–
Project funds payable	35,499	37,462
Others	1,464,140	1,006,376
	19,026,448	19,655,807

(a) Interest payable

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Deposits from customers	7,475,853	7,003,405
Deposits and placement from banks and other financial institutions	1,217,294	1,625,425
Debt securities issued	963,155	642,458
	9,656,302	9,271,288

(b) Dividends payable

As at 30 June 2018, the General Meetings of Shareholders was held and decided to distribute cash dividends to all shareholders. Details are listed in note 37.

(c) Unearned rent and deposits under lease arrangements

As at 30 June 2018, the Group's unearned rent and deposits under lease arrangements are all contributed by its subsidiary Huishang Bank Financial Leasing Co., Ltd., which include the deposits and deferred income of finance lease.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

32 OTHER LIABILITIES (Continued)

(d) Salary and welfare payable

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Short-term employee benefits	1,310,678	1,630,649
Termination benefits	50,991	57,361
Defined contribution plans	7,694	18,314
	1,369,363	1,706,324

Short-term employee benefits

	As at 1 January 2018	Increase in current period	Decrease in current period	As at 30 June 2018 Unaudited
Wages, bonuses, allowances and subsidies	1,289,370	1,116,642	(1,445,958)	960,054
Employee benefits	213	85,137	(85,048)	302
Social insurance	810	74,144	(74,161)	793
Including:				
Medical Insurance	161	70,376	(69,849)	688
Occupational Injury Insurance	35	1,272	(1,272)	35
Maternity Insurance	614	2,496	(3,040)	70
Housing fund	1,223	78,116	(71,190)	8,149
Labour union fee and staff education fee	25,220	26,385	(24,038)	27,567
Other short-term employee benefits	313,813	-	-	313,813
	1,630,649	1,380,424	(1,700,395)	1,310,678

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

32 OTHER LIABILITIES (Continued)

(d) Salary and welfare payable (Continued)

Short-term employee benefits (Continued)

	As at 1 January 2017	Increase in current year	Decrease in current year	As at 31 December 2017 Audited
Wages, bonuses, allowances and subsidies	1,163,894	2,407,962	(2,282,486)	1,289,370
Employee benefits	–	148,586	(148,373)	213
Social insurance	850	89,521	(89,561)	810
Including:				
Medical Insurance	779	80,685	(81,303)	161
Occupational Injury Insurance	36	2,327	(2,328)	35
Maternity Insurance	35	6,509	(5,930)	614
Housing fund	3,079	144,963	(146,819)	1,223
Labour union fee and staff education fee	20,189	88,329	(83,298)	25,220
Other short-term employee benefits	313,813	–	–	313,813
	1,501,825	2,879,361	(2,750,537)	1,630,649

Defined contribution plans

	As at 1 January 2018	Increase in current period	Decrease in current period	As at 30 June 2018
Basic pension insurance	7,235	107,656	(108,796)	6,095
Unemployment Insurance	396	2,226	(2,187)	435
Annuity scheme	10,683	90,700	(100,219)	1,164
	18,314	200,582	(211,202)	7,694

	As at 1 January 2017	Increase in current year	Decrease in current year	As at 31 December 2017
Basic pension insurance	6,444	173,972	(173,181)	7,235
Unemployment Insurance	271	6,344	(6,219)	396
Annuity scheme	14,062	173,691	(177,070)	10,683
	20,777	354,007	(356,470)	18,314

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

32 OTHER LIABILITIES (Continued)

(d) Salary and welfare payable (Continued)

Termination benefits

	As at 30 June 2018	As at 31 December 2017
Early retirement benefits	50,991	57,361

(e) Expected liabilities – Impairment allowance of credit commitments

	Six month period ended 30 June 2018			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL-impaired)	
As at 1 January				–
Impact of adopting IFRS 9				209,908
Opening balance under IFRS 9	205,486	3,531	891	209,908
Addition	396,597	90,783	(779)	486,601
As at 30 June	602,083	94,314	112	696,509

For the six months ended June 30, 2018, there is no stage conversion in the credit commitments for impairment.

33 DEFERRED INCOME TAXES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority. The movement in the deferred income tax account is as follows:

	Six months ended 30 June 2018 Unaudited	Year ended 31 December 2017 Audited
Balance at beginning of the period/year	4,724,486	2,309,106
The impacts of transition to IFRS 9	(56,601)	–
Charged to condensed consolidated comprehensive income statement	323,401	2,165,631
Credited to shareholders' equity	(224,221)	249,750
Balance at end of the period/year	4,767,065	4,724,487

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

33 DEFERRED INCOME TAXES (Continued)

Items included in deferred tax assets and liabilities are as follows:

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Deferred tax assets		
Impairment allowance for assets	4,312,605	3,688,417
Salary and welfare payable	201,260	386,399
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	–	185,353
Fair value changes of available for sale financial assets	–	289,999
Fair value changes of financial assets measured by fair value and whose changes are included in other comprehensive income	72,397	–
Impairment of financial assets measured by fair value and whose changes are included in other comprehensive income	65,632	
Impairment of customer loans and advances based on fair value and changes in other comprehensive income	14,591	–
Credit commitment impairment	174,127	–
Others	103,651	174,319
	4,944,263	4,724,487
Deferred income tax liabilities		
Fair value changes of financial instruments and derivative financial instruments at fair value through other comprehensive income	(96,971)	
Fair value changes of customer loans and advances made at fair value and whose changes are included in other comprehensive income	(4)	
Impairment of financial assets measured by fair value and whose changes are included in other comprehensive income	(65,632)	
Impairment of customer loans and advances based on fair value and changes in other comprehensive income	(14,591)	
Deferred tax assets, net	4,767,065	4,724,487

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

33 DEFERRED INCOME TAXES (Continued)

Deferred taxes recorded in the income statements of current period and the year comprise the following temporary differences:

	Six months ended 30 June	
	2018 Unaudited	2017 Unaudited
Impairment allowance for assets	722,513	630,721
Salary and welfare payable	(185,139)	(14,577)
Fair value changes of financial instruments and derivative financial instruments at fair value through profit or loss	(374,497)	122,037
Fair value changes of financial investments assets at fair value through other comprehensive income	218	–
Fair value changes of customer loans and advances made at fair value and whose changes are included in other comprehensive income	56,844	–
Credit commitment impairment	174,127	–
Others	(70,665)	(34,253)
	323,401	703,928

34 DEBT SECURITIES ISSUED

	As at 30 June 2018	As at 31 December 2017
	Unaudited	Audited
11 Subordinated debts with fixed rate ^(a)	3,994,331	3,994,067
13 Financial bonds for SMEs ^(b)	–	2,199,018
15 Financial bonds 01 ^(c)	3,499,975	3,499,480
15 Financial bonds 02 ^(d)	499,825	499,785
15 Tier 2 capital bonds ^(e)	7,989,361	7,988,736
15 Financial bonds 03 ^(f)	3,499,811	3,499,322
15 Financial bonds 04 ^(g)	499,815	499,775
16 Financial bonds 01 ^(h)	6,999,629	6,999,462
16 Financial bonds 02 ⁽ⁱ⁾	2,999,730	2,999,688
17 Green financial ^(j)	999,871	999,843
18 Green financial bonds ^(k)	3,999,959	–
Interbank certificates of deposit issued ^(l)	95,797,273	82,001,181
	130,779,580	115,180,357

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

34 DEBT SECURITIES ISSUED (Continued)

- (a) The Group issued RMB4 billion of subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Group has an option to redeem these debts at face value on 2 April 2021.

Claims on subordinated debts are posterior to other liabilities but prior to the Group's share capital. From 1 January 2013, they are qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

- (b) The Group issued RMB2.2 billion of financial bonds designated for SMEs lending on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.50%, paid annually.
- (c) The Group issued RMB3.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.15%, paid annually.
- (d) The Group issued RMB0.5 billion of financial bonds on 30 July 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.35%, paid annually.
- (e) The Group issued RMB8.0 billion of tier 2 capital bonds on 11 September 2015 in China's inter-bank bond market, with a maturity of 10 years and a fixed coupon rate of 4.69%, paid annually. The Group has an option to redeem part or all of the bonds at face value on 11 September 2020, subject to regulatory approval. Tier 2 capital bond's right of recourse is subordinate to depositors and ordinary debts and is superior to equity, other tier 1 capital instruments and mixed capital debts.
- (f) The Group issued RMB3.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 3.90%, paid annually.
- (g) The Group issued RMB0.5 billion of financial bonds on 24 September 2015 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.10%, paid annually.
- (h) The Group issued RMB7 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 2.98%, paid annually.
- (i) The Group issued RMB3 billion of financial bonds on 12 August 2016 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 3.09%, paid annually.
- (j) The Group issued RMB1 billion of financial bonds on 8 September 2017 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.49%, paid annually.
- (k) The Group issued RMB4 billion of financial bonds on 29 May 2018 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.5%, paid annually.
- (l) The Group issued 93 interbank certificates of deposit at discounts with total face value of RMB100.36 billion with the maturity ranging from one month to one year. As at 30 June 2018, the face value of the undue interbank certificates of deposit issued is RMB97.05 billion.

For the six month period ended 30 June 2018, there were no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

35 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE

(1) Share capital

The Bank's share capital is comprised of fully paid common shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Number of authorized shares fully paid in issue (in thousands)	11,049,819	11,049,819

According to the annual profit distribution plan for 2017 reviewed and adopted at the 2017 annual general meeting held on June 30, 2018. 1 share for every 10 shares and 0.25 yuan for every 10 shares shall be sent to all shareholders based on the total share capital of 11,049,819,283 shares. On July 2, 2018, the bank announced the issuance of stock dividends and cash dividends.

(2) Other Equity Instruments

Preference shares outstanding as at 30 June 2018 and 31 December 2017

Preference Shares	Issue date	Classification	Initial interest rate	Issue price	Quantity (million)	Original Currency		Maturity date	Conversion conditions
						(USD)	(RMB)		
30 June 2018 Offshore Preference Shares	10 November 2016	Equity instruments	5.50%	\$20/share	44.4	888,000	6,028,188	No maturity date	None
Total amount							6,028,188		
Less: issuance fee							(38,098)		
Carrying amount							5,990,090		

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

35 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(2) Other Equity Instruments (Continued)

The key terms are as below:

(1) Dividend

The initial annual dividend rate is 5.50% and is subsequently subject to reset per agreement. Subject to a resolution to be passed at a shareholders' general meeting of the Bank, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the Conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due and payable. Dividend payment method is non-cumulative.

(2) Redemption

The Bank may, subject to obtaining CBIRC approval and compliance with the redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem in whole or in part of the Offshore Preference Shares on the first reset date and on any dividend payment date thereafter. The redemption price for the Offshore Preference Share shall be the aggregate of its liquidation priority amount and any declared but unpaid dividends.

(3) Compulsory conversion of preference shares

If any Trigger Event occurs, the Bank shall (having notified and obtained the consent of the CBIRC but without the need for the consent of holders of preference shares or the holders of ordinary shares): irrevocably and compulsorily convert all or some only of the Offshore Preference Shares into such number of H Shares. Offshore preferred stock issued by our bank is classified as equity instruments and listed in equity of the balance sheet. The capital raised by the aforesaid overseas preferred shares is used to supplement other first level capital of the Bank and to increase the capital adequacy ratio of the Bank after deducting the issuance expenses.

(3) Capital reserve

Transactions of the following natures are recorded in the capital reserve:

- (i) share premium arising from the issuance of shares at prices in excess of their par value;
- (ii) donations received from shareholders; and
- (iii) any other items required by the PRC regulations.

Capital surplus can be utilized for the issuance of stock dividends or for increasing paid-up capital as approved by the shareholders.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

35 SHARE CAPITAL, OTHER EQUITY INSTRUMENTS AND CAPITAL RESERVE (Continued)

(3) Capital reserve (Continued)

The Group's capital surplus is as follows:

	As at 30 June 2018 Unaudited	As at 31 December 2017 Audited
Share premium	6,760,445	6,751,041

The Bank adjusted the capital reserve equity premium by increasing the difference between the long-term equity investment in Huishang Bank Financial Leasing Co., Ltd. and the net assets share that should be calculated on the merger date of the subsidiary in accordance with the new shareholding ratio

36 OTHER RESERVE

	Surplus reserve ^(a)	General reserve ^(b)
As at 1 January 2017	6,536,297	6,208,315
Appropriation to surplus reserve	1,417,004	–
Appropriation to general reserve	–	1,514,212
As at 31 December 2017	7,953,301	7,722,527
Appropriation to surplus reserve	742,362	–
Appropriation to general reserve	–	395,180
As at 30 June 2018	8,695,663	8,117,707

(a) Surplus reserve

Pursuant to the "Company Law of the PRC" and the Group's Articles of Association, the Group is required to appropriate 10% of its net profit in statutory condensed consolidated financial statements to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. The Bank can appropriate to the discretionary surplus reserve after statutory surplus reserve has been made.

As at 30 June 2018 and 31 December 2017, the Bank's statutory surplus reserve balances were RMB3,814.80 million. The others were discretionary surplus reserve.

(b) General reserve

Pursuant to Cai Jin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" (the "Requirements") issued by Ministry of Finance on 30 March 2012, the general reserve should not be less than 1.5% of the aggregate amount of risk assets, and the minimum threshold can be accumulated over a period of no more than five years. The Requirements were effective from 1 July 2012.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

37 DIVIDENDS

	Six months ended 30 June 2018 Unaudited	The year ended 31 December 2017 Audited
Dividends declared for the period	276,245	674,039
Dividends per ordinary share (in RMB Yuan)	0.025	0.061
Dividends paid during the period	81,114	687,298

The final dividend of RMB0.025 per share in respect of the year ended 31 December 2017 has been approved by the shareholders in the general meeting.

Under the “Company Law of the PRC” and the Bank’s Articles of Association, the net profit after tax as reported in the PRC statutory condensed consolidated financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up cumulative losses from prior years, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank;
- (iii) Allocations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders’ equity.

In accordance with the relevant regulations, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC Generally Accepted Accounting Principles and (ii) the retained profits determined in accordance with IFRS.

38 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group’s financial guarantees and credit commitments:

	As at 30 June 2018	As at 31 December 2017
Bank acceptance	30,157,025	27,513,009
Letters of credit issued	18,346,516	7,860,919
Letters of guarantee issued	5,167,928	10,699,447
Loan commitments	125,000	1,732,384
Unused credit card lines	19,001,780	14,490,272
Total	72,798,249	62,296,031
Impairment allowance of credit commitments (Note 32)	696,509	–

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

38 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Capital commitments

	As at 30 June 2018	As at 31 December 2017
Contracted but not provided for	199,087	315,204

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings under non-cancellable operating leases are as follows:

	As at 30 June 2018	As at 31 December 2017
Within 1 year	240,357	285,219
Between 1 year to 5 years	609,962	718,124
Later than 5 years	220,204	246,387
	1,070,523	1,249,730

(d) Treasury bond redemption commitments

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2018 and 31 December 2017, the nominal value of treasury bonds the Group was obligated to redeem prior to maturity were RMB3.09 billion and RMB2.88 billion respectively.

(e) Legal proceedings

During the reporting period, the Group is involved as defendants in certain lawsuits arising from its normal business operations. At 30 June 2018, provision for litigation losses as advised by in-house or external legal professionals was RMB0.23 billion (31 December 2017: RMB0.23 billion). Based on legal advice, the management of the Group believes that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

39 COLLATERAL

(a) Pledged assets

Assets are pledged as collateral under repurchase agreements and for treasury deposits with other banks and Ministry of Finance.

	As at 30 June 2018	As at 31 December 2017
Available-for-sale financial assets	–	25,317,750
Held-to-maturity investments	–	13,464,394
Discounted bills	–	4,221,575
Fair value changes of financial assets at fair value through other comprehensive income	6,868,559	–
Financial assets at amortised cost	32,804,561	–
Fair value changes of financial assets at fair value through profit or loss	6,716,410	–
	46,389,530	43,003,719

The carrying value of financial assets sold under repurchase agreements by the Group as at 30 June 2018 was RMB42.0 billion (as at 31 December 2017 RMB40.9 billion) as set out in Note 29. Repurchase agreements are primarily due within 12 months from the effective dates of these agreements.

Financial assets sold under repurchase agreements included certain transactions under which, title of the pledged securities has been transferred to counterparties. The debt securities with title transferred to counterparties recorded in financial assets sold under repurchase agreements that the Group did not derecognize amounted to zero as at 30 June 2018 (as at 31 December 2017: zero).

In addition, the Group has no debt securities and deposits with banks and other financial institutions pledged in accordance with regulatory requirements or as collateral for derivative transactions.

(b) Collateral accepted

The Group accepted debt securities, bills and other assets as collateral in connection with the purchase of assets under resale agreements. Certain of these collaterals can be resold or re-pledged. The Group has accepted collateral that can be resold or re-pledged with a carrying amount of RMB1.53 billion as at 30 June 2018 (31 December 2017: RMB20.6 billion). The Group has accepted collateral that can be re-pledged and the Group has the right to return with a carrying amount of zero as at 30 June 2018 (31 December 2017: RMB zero).

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

40 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 30 June 2018	As at 31 December 2017
Financial guarantees and credit related commitments	29,396,531	24,496,468

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit related commitments.

41 OTHER COMPREHENSIVE INCOME

	Gains/(losses) on investments in equity instruments measured at fair value through other comprehensive income		Gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		Impairment on investments in debt instruments measured at fair value through other comprehensive income		Fair value gains/(losses) on available for sale financial assets		Total
	Income	Tax impact	Income	Tax impact	Income	Tax impact	Profit	Tax impact	
As at 1 January 2017	-	-	-	-	-	-	(160,996)	40,249	(120,747)
Changes in amount for the previous year	-	-	-	-	-	-	(999,000)	249,750	(749,250)
As at 31 December 2017	-	-	-	-	-	-	(1,159,996)	289,999	(869,997)
Impact of adopting IFRS 9	22,942	(5,736)	(1,175,523)	293,881	287,015	(71,754)	1,159,996	(289,999)	220,822
As at 1 January 2018	22,942	(5,736)	(1,175,523)	293,881	287,015	(71,754)	-	-	(649,175)
Changes in amount for the period	38,884	(9,721)	824,125	(206,031)	33,876	(8,469)	-	-	672,664
As at 30 June 2018	61,826	(15,457)	(351,398)	87,850	320,891	(80,223)	-	-	23,489

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

42 STRUCTURED ENTITIES

a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are mainly wealth management products (“WMP”) issued and managed by the Bank acting as an agent, which are not subject to any guarantee by the group of the principal invested or interest to be paid. Wealth management products were mainly invested in money market instruments, bonds and loan assets, etc. The raised funds were invested in related financial markets or financial products in accordance with the product contracts. Gains would be allocated to investors after the Group gained from investment. The Group receives commission income as the manager of these wealth management products. As at 30 June 2018 and 31 December 2017, total wealth commission income the Group received are 311.14 million and 739.87 million respectively. The Group considered its variable returns from the structured entities are insignificant and hence they are not consolidated.

As at 30 June 2018, the carrying value of the off-balance sheet wealth management the Group issued and managed is RMB91.96 billion (31 December 2017: RMB86.31 billion). As at 30 June 2018 the Group’s maximum exposure to these unconsolidated structured entities is zero (31 December 2017 is zero).

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group’s risk or reduce its interest in WMP vehicles disclosed above. The Group is not required to absorb any losses incurred by WMPs before other parties. In the first half of 2018, no loss was incurred by the WMP vehicles relating to the Group’s interests in the WMP vehicles, and the WMP vehicles did not experience difficulty in financing their activities.

b) Unconsolidated structured entities invested by the Group

To maximize the usage of capital, the Group enters into transactions with unconsolidated structured entities which include wealth management products, the trust fund and asset management plan schemes issued and managed by other independent third parties during the period ended 30 June 2018 and 31 December 2017. The Group classifies these assets into “debt instruments classified as receivables” or “available-for-sale financial assets” based on their nature. As the investor of these entities, the Group earns interest from these transactions. The Group has not provided any liquidity support to these unconsolidated structured entities during the period ended 30 June 2018 and 31 December 2017.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

42 STRUCTURED ENTITIES (Continued)

b) Unconsolidated structured entities invested by the Group (Continued)

The table below shows the carrying value and scale of unconsolidated structured entities invested by the Group, as well as its maximum exposure to loss in relation to those interests.

At 30 June 2018	Carrying Value	Maximum Exposure to Loss
Financial investments – at FVPL		
– Non-Guaranteed wealth management products	6,703,030	6,703,030
– Trust fund and asset management plan	94,857,407	94,857,407
Financial assets at amortised cost		
– Trust fund and asset management plan	185,661,528	185,661,528

At 31 December 2017	Carrying Value	Maximum Exposure to Loss
Debt instruments classified as receivables		
– Guaranteed wealth management products	7,850,000	7,850,000
– Trust fund and asset management plan	203,663,488	203,663,488
Available-for-sale financial assets		
– Non-guaranteed wealth management products	10,000,000	10,000,000
– Trust fund and asset management plan	62,111,292	62,111,292

The information of total size of the unconsolidated structured entities listed above is not readily available.

c) Consolidated structured entities

Consolidated structured entities include guaranteed wealth management products established and managed by the Group and the beneficial rights in trust and asset management plans which the Group made the investment decision.

The Group did not provide liquidity support to these consolidated structured entities during the period ended 30 June 2018, and the year ended 31 December 2017.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

43 CASH AND CASH EQUIVALENTS

For the purpose of the condensed consolidated statement of cash flow, cash and cash equivalents comprises the following balances with an original maturity of less than three months:

	As at 30 June 2018	As at 31 December 2017
Cash	1,210,963	1,292,408
Surplus reserve with central bank	16,093,322	17,557,339
Deposits with banks and other financial institutions	11,740,159	8,430,699
	29,044,444	27,280,446

44 CREDIT ASSETS SECURITIZATION TRANSACTIONS

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors. The Group retains 5% interests in each tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the condensed consolidated statement of financial positions to the extent of the Group's continuing involvement.

As at 30 June 2018, loans with an original carrying amount of RMB0.28 billion (2017: RMB2.86 billion) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 30 June 2018, the carrying amount of assets that the Group continued to recognise was RMB0.02 billion (2017: RMB0.71 billion).

45 RELATED PARTY TRANSACTIONS

(1) Related parties

The table below listed major related legal entities of the Group:

Major related legal entities with the Group	Relationship with the Group	Share percentage (%)
Zhongjing Xinhua asset management Co.	Major shareholder	14.94%
Anhui Province Energy Group Co.	Major shareholder	10.89%
China Vanke Co., Ltd.	Major shareholder	8.00%
Anhui Guoyuan Holding (Group) Co.	Major shareholder	7.19%
Anhui Credit Guaranty Group Co.	Major shareholder	6.83%

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

45 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances

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

a) Transactions with major shareholders and balances

As at balance sheet dates stated below, the balances and interest rate ranges of transactions with major shareholders of the Group are as follows:

	As at 30 June 2018	As at 31 December 2017
Loans and advances to customers	2,000,000	2,283,000
Financial assets	2,500,000	17,446
Placements from banks and other financial institutions	459,953	355,402
Deposits from customers	865,120	1,110,002
Bank acceptance	5,021	7,884
Letters of guarantee issued	1,330	1,965
	5,831,424	3,775,699

	As at 30 June 2018	As at 31 December 2017
Loans and advances to customers	3.08%-5.15%	3.63%-3.96%
Placements from banks and other financial institutions	0.72%-4.45%	0.30%-4.90%
Deposits from customers	0.30%-2.10%	0.30%-1.61%

As for the periods stated below, the interest income and expense of loans and deposits and management fee of asset management plans with respect to major shareholders are as follows:

	Six months ended 30 June	
	2018	2017
Interest income	80,750	41,794
Interest expense	6,981	3,890
Management fee of asset management plans	4,659	2,435

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

45 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

b) Transactions with other related parties and balances

As at the balance sheet date stated below, the balances and interest rate ranges of transactions with other related parties of the Group are as follows:

	As at 30 June 2018	As at 31 December 2017
Loans and advances to customers	1,750,516	652,073
Financial assets	1,794,662	721,894
Placements from banks and other financial institutions	372,233	258,775
Deposits from customers	1,371,823	551,370
Bank acceptance	34,717	2,676
Letters of guarantee issued	13,393	8,580
	5,337,344	2,195,368

	As at 30 June 2018	As at 31 December 2017
Loans and advances to customers	3.08%-5.15%	3.63%-6.24%
Placements from banks and other financial institutions	0.30%-4.45%	0.72%-1.09%
Deposits from customers	0.30%-2.75%	0.30%-1.61%

As for the periods stated below, the interest income and expense of loans and deposits with respect to other related parties are as follows:

	Six months ended 30 June	
	2018	2017
Interest income	57,649	4,538
Interest expense	1,717	719

c) Emoluments for directors, supervisors and senior management

	Six months ended 30 June	
	2018	2017
Emoluments for directors, supervisors and senior management	5,795	4,397

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

46 SEGMENT ANALYSIS

The Group manages the business from both business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

Corporate banking

- Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Retail banking

- Services to retail customers including savings deposits, personal loans and advances, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury

- Treasury segment conducts securities investment, money market and repurchase transactions. The results of this segment include the intersegment funding income and expenses, resulting from interest bearing assets and liabilities and foreign currency translation gains and losses.

Others

- Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

Geographically, the Group mainly conducts its business in PRC and opens branches in Anhui Province and the Yangtze River Delta area. When listing information based on geographic areas, revenue is divided by the location where the branches are located; assets and liabilities and capital expense of segments are divided by the branch they belong to.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

46 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2018				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	5,304,776	2,846,521	13,260,306	829,920	22,241,523
Net interest expense to external customers	(2,252,394)	(1,119,804)	(7,152,038)	(674,590)	(11,198,826)
Intersegment net interest income/(expense)	2,085,401	42,612	(2,128,013)	-	-
Net interest income	5,137,783	1,769,329	3,980,255	155,330	11,042,697
Net fee and commission income	818,884	363,520	475,006	40,425	1,697,835
Net trading gains	-	-	475,641	-	475,641
Net gains from investment securities	-	-	74,576	-	74,576
Other operating income	-	-	126,798	25,010	151,808
Operating expenses	(899,476)	(780,658)	(639,726)	(631,036)	(2,950,896)
– Depreciation and amortization	(61,372)	(55,233)	(42,960)	(45,007)	(204,572)
Impairment losses on assets	(2,347,196)	(665,961)	(3,064,493)	669,666	(5,407,984)
Share of profits of associates	-	-	-	66,712	66,712
Profit before income tax	2,709,995	686,230	1,428,057	326,107	5,150,389
Capital expenditure	80,363	58,446	51,140	53,574	243,523

	As at 30 June 2018				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	276,866,224	145,397,821	526,307,563	1,869,213	950,440,821
<i>Including: investment in associates</i>	-	-	-	1,027,141	1,027,141
Deferred tax assets					4,767,065
Total assets					955,207,886
Segment liabilities	422,990,998	122,135,971	342,148,886	3,406,545	890,682,400
Off-balance sheet credit commitments	53,796,469	19,001,780	-	-	72,798,249

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

46 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2017				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	10,703,234	3,969,043	23,424,402	1,319,576	39,416,255
Net interest expense to external customers	(5,078,488)	(1,781,094)	(11,417,456)	(942,680)	(19,219,718)
Intersegment net interest income/(expense)	3,928,849	1,006,298	(4,935,147)	–	–
Net interest income	9,553,595	3,194,247	7,071,799	376,896	20,196,537
Net fee and commission income	1,779,230	541,569	323,247	199,625	2,843,671
Net trading gains	–	–	(439,738)	–	(439,738)
Net gains from investment securities	–	–	(76,160)	–	(76,160)
Dividends	–	–	640	–	640
Other operating income	–	–	(114,314)	97,689	(16,625)
Operating expenses	(2,451,660)	(1,908,912)	(1,119,872)	(349,695)	(5,830,139)
– Depreciation and amortization	(210,778)	(199,208)	(12,247)	(17,292)	(439,525)
Impairment losses on assets	(3,794,649)	(853,109)	(2,510,386)	(44,414)	(7,202,558)
Share of profits of associates	–	–	–	137,136	137,136
Profit before income tax	5,086,516	973,795	3,135,216	417,237	9,612,764
Capital expenditure	378,982	314,781	20,724	29,260	743,747

	As at 31 December 2017				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	265,527,606	130,793,376	505,777,497	1,276,731	903,375,210
<i>Including: investment in associates</i>	–	–	–	971,050	971,050
Deferred tax assets					4,724,487
Total assets					908,099,697
Segment liabilities	(400,549,661)	(126,085,619)	(321,277,442)	(974,889)	(848,887,611)
Off-balance sheet credit commitments	47,846,499	14,449,532	–	–	62,296,031

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

46 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2018				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	8,406,901	527,143	13,307,479	-	22,241,523
Net interest expense to external customers	(2,004,925)	(585,284)	(8,608,617)	-	(11,198,826)
Intersegment net interest income/(expense)	1,915,212	212,801	(2,128,013)	-	-
Net interest income	8,317,188	154,660	2,570,849	-	11,042,697
Net fee and commission income	597,589	54,286	1,045,960	-	1,697,835
Net trading gains	(57,770)	66,191	467,220	-	475,641
Net gains from investment securities	-	-	74,576	-	74,576
Other operating income	81,859	4,023	65,926	-	151,808
Operating expenses	(1,780,382)	(46,048)	(1,124,466)	-	(2,950,896)
– Depreciation and amortization	(125,340)	(2,723)	(76,509)	-	(204,572)
Impairment losses on assets	(3,576,613)	-	(1,831,371)	-	(5,407,984)
Share of profits of associates	-	-	66,712	-	66,712
Profit before income tax	3,581,871	233,112	1,335,406	-	5,150,389
Capital expenditure	149,205	3,243	91,075	-	243,523

	As at 30 June 2018				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	57,572,995	31,396,140	1,092,004,895	(230,533,209)	950,440,821
<i>Including: investment in associates</i>	-	-	1,027,141	-	1,027,141
Deferred tax assets					4,767,065
Total assets					955,207,886
Segment liabilities	(537,163)	(31,470)	(1,120,646,976)	230,533,209	(890,682,400)
Off-balance sheet credit commitments	23,035,316	15,081,453	34,681,480	-	72,798,249

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

46 SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2017				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Net interest income from external customers	15,559,962	1,938,768	21,917,525	–	39,416,255
Net interest expense to external customers	(6,515,215)	(1,151,287)	(11,553,216)	–	(19,219,718)
Intersegment net interest income/(expense)	4,339,652	330,960	(4,670,612)	–	–
Net interest income	13,384,399	1,118,441	5,693,697	–	20,196,537
Net fee and commission income	1,002,857	73,620	1,767,194	–	2,843,671
Net trading gains	63,721	595	(504,054)	–	(439,738)
Net gains from investment securities	–	–	(76,160)	–	(76,160)
Dividends	–	–	640	–	640
Other operating income	(20)	(2,139)	(14,466)	–	(16,625)
Operating expenses	(3,472,383)	(262,533)	(2,095,223)	–	(5,830,139)
– Depreciation and amortization	(307,242)	(5,549)	(126,734)	–	(439,525)
Impairment losses on assets	(4,769,302)	(381,736)	(2,051,520)	–	(7,202,558)
Share of profits of associates	–	–	137,136	–	137,136
Profit before income tax	6,209,272	546,248	2,857,244	–	9,612,764
Capital expenditure	519,902	9,391	214,454	–	743,747

	As at 31 December 2017				
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	Total
Segment assets	570,818,855	59,807,817	491,834,396	(219,085,858)	903,375,210
<i>Including: investment in associates</i>	–	–	971,050	–	971,050
Deferred tax assets					4,724,487
Total assets					908,099,697
Segment liabilities	(324,099,318)	(55,448,874)	(688,425,277)	219,085,858	(848,887,611)
Off-balance sheet credit commitments	33,579,238	6,545,144	22,171,649	–	62,296,031

There were no material transactions with a single external customer that the Group mainly relies on.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in the business. The Group's aim is therefore to achieve an appropriate balance between risks and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The most important types of risks are credit risk, liquidity risk and market risk which also includes currency risk and interest rate risk.

The Board of Directors is responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

47.1 Credit risk

47.1.1 Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk 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 I: The financial instruments without significant increases in credit risk after initial recognition are included in Stage I to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage II: 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 II, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage III: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage III, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.1 Credit risk measurement (Continued)

Measurement of ECL (Continued)

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance of the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- 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 condition

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.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.1 Credit risk measurement (Continued)

Measurement of ECL (Continued)

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 contractual cash flows

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.1 Credit risk measurement (Continued)

Criteria for judging significant increases in credit risk (Continued)

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 increase in remaining lifetime probability of default 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
- Be listed on the watch-list

Backstop criteria

- The debtor's contractual payments (including principal or interest) are more than 30 days and no more than 90 days past due

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;

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.1 Credit risk measurement (Continued)

Definition of credit-impaired financial asset (Continued)

- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

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 method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- 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.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.1 Credit risk measurement (Continued)

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group applied experts' judgement in this process, according to the result of experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines statistical analysis with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (stage I) or life time (stage II and stage III). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the derecognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit and loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2(Lifetime ECL) to Stage 1(12-month ECL), when the assets have met specific criteria after a period of observation. As at 30 June 2018, the carrying amount of financial assets with such modified contractual cash flows was not significant.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.2 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 30 June 2018	As at 31 December 2017
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the central bank	84,261,098	91,065,465
Deposits with banks and other financial institutions	11,836,283	9,699,833
Placement with banks and other financial institutions	4,719,461	3,553,288
Financial assets at fair value through profit or loss	105,133,868	2,695,099
Derivative financial assets	481,002	67,479
Financial assets held under resale agreements	28,322,172	36,027,487
Loans and advances to customers	337,528,030	305,208,545
Investment securities- financial assets at fair value through other comprehensive income	83,463,738	–
Investment securities- financial assets at amortised cost	247,274,014	–
Investment securities-available-for-sale	–	143,305,890
Investment securities-held-to-maturity	–	61,128,401
Investment securities-Debt instruments classified as receivables	–	211,647,260
Finance lease receivables	31,313,618	26,269,575
Other financial assets	10,716,815	7,496,686
	945,050,099	898,165,008
Credit risk exposures relation to off-balance sheet items are as follows:		
Bank acceptance	30,157,025	27,513,009
Letters of credit	18,346,516	7,860,919
Letters of guarantee	5,167,928	10,699,447
Loan commitments	125,000	1,732,384
Unused credit card lines	19,001,780	14,490,272
	72,798,249	62,296,031

The above table represents the worst-case scenario of credit risk exposure to the Group at 30 June 2018 and 31 December 2017, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the condensed consolidated statement of financial position.

As mentioned above, 35.72% of on-balance-sheet exposure is attributable to loans and advances to customers (2017: 33.98%).

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.2 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loans and advances portfolio based on the following:

- 97.82% of the loans and advances portfolio is categorized as Pass of the five-category system (2017: 97.53%);
- Collateralized loans and mortgage loans, which represents the biggest group in the corporate and retail portfolio respectively, are backed by collateral;
- 98.27% of the loans and advances portfolio are considered to be neither past due nor impaired (2017: 97.33%)

47.1.3 Deposits with banks and other financial institutions, placement with and loans to banks and other financial institutions and financial assets held under resale agreements

Placements with banks and other financial institutions and financial assets hold under resale agreements are neither overdue nor impaired. Their credit risk can be evaluated by the credibility of the counterparties.

	As at 30 June 2018	As at 31 December 2017
Commercial banks in PRC mainland	38,569,553	42,429,199
Other financial institutions in PRC mainland	2,197,110	3,895,904
Commercial banks outside PRC mainland	4,111,253	2,955,505
	44,877,916	49,280,608

47.1.4 Loans and advances to customers

Loans and advances three-staging exposure

- (1) Loans and advances to customers by five-tier loan classification and three-staging analysed as follows:

	Six month period ended 30 June 2018			Total
	Stage I (12-month ECL)	Stage II (Lifetime ECL)	Stage III (Lifetime ECL- impaired)	
Pass	331,985,862	8,208,720	-	340,194,582
Special-mention	-	4,022,265	-	4,022,265
Loss	-	-	3,543,921	3,543,921
Total	331,985,862	12,230,985	3,543,921	347,760,768

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.4 Loans and advances to customers (Continued)

(a) Analysis of loans and advances to customers by industry

Concentrations of credit risk of loans and advances to customers by industry are analysed as follow:

	As at 30 June 2018		As at 31 December 2017	
	Amount	%	Amount	%
Corporate loans				
Commerce and service	51,584,078	15	48,783,124	15
Manufacturing	46,698,150	13	43,127,921	14
Public utilities	58,353,409	17	48,757,518	15
Real estate	13,872,836	4	11,895,332	3
Construction	17,791,512	5	14,722,807	4
Transportation	6,115,420	2	5,923,858	2
Energy and chemistry	7,165,883	2	5,888,697	2
Catering and travelling	1,484,396	1	1,536,054	1
Education and media	884,056	1	1,071,775	1
Financial services	4,197,950	1	4,114,863	1
Others	1,500,690	1	1,288,844	1
Discounted bills	13,061,637	4	15,209,815	6
Subtotal	222,710,017	66	202,320,608	65
Personal loans and advances				
Mortgages	80,304,825	22	71,558,646	23
Revolving loans for private				
business	6,201,123	1	6,483,122	1
Others	38,544,803	11	34,331,773	11
Subtotal	125,050,751	34	112,373,541	35
Total loans and advances to customers, before impairment allowance	347,760,768	100	314,694,149	100

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.4 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analyzed by security type:

	As at 30 June 2018	As at 31 December 2017
Unsecured	47,322,587	40,465,891
Guaranteed	63,895,908	59,224,305
Collateralized	156,952,775	148,639,980
Pledged	79,589,498	66,363,973
Total loans and advances to customers	347,760,768	314,694,149

(c) Analysis of loans and advances to customers by geographical area

	As at 30 June 2018			As at 31 December 2017		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	320,814,400	92.25%	1.04%	291,182,838	92.53%	1.05%
Pan Yangtze River Delta	26,946,368	7.75%	0.78%	23,511,311	7.47%	1.01%
Total loans and advances to customers	347,760,768	100%	1.02%	314,694,149	100%	1.05%

(d) Analysis of loans and advances to customers by overdue and impaired status

	As at 30 June 2018		As at 31 December 2017	
	Corporate loans	Personal loans and advances	Corporate loans	Personal loans and advances
Neither overdue nor impaired (e)	218,129,212	123,613,751	196,776,091	111,124,878
Overdue but not impaired (f)	1,744,918	728,966	2,863,194	630,046
Impaired (g)	2,835,887	708,034	2,681,323	618,617
Total	222,710,017	125,050,751	202,320,608	112,373,541
Less: collectively assessed impairment allowance	-	-	(5,679,809)	(2,394,536)
Individually assessed impairment allowance	(8,034,119)	(2,198,619)	(1,411,259)	-
Total impairment allowance	(8,034,119)	(2,198,619)	(7,091,068)	(2,394,536)
Net	214,675,898	122,852,132	195,229,540	109,979,005

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.4 Loans and advances to customers (Continued)

(e) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired of single corporate customer can be assessed by reference to the five-category system adopted by the Group.

As at 30 June 2018

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
– Commercial loans	194,418,591	10,648,984	205,067,575
– Discounted bills	13,061,637	–	13,061,637
Subtotal	207,480,228	10,648,984	218,129,212
Personal loans and advances	123,568,910	44,841	123,613,751
Total	331,049,138	10,693,825	341,742,963

As at 31 December 2017

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
– Commercial loans	178,701,038	2,865,238	181,566,276
– Discounted bills	15,209,815	–	15,209,815
Subtotal	193,910,853	2,865,238	196,776,091
Personal loans and advances	111,103,479	21,399	111,124,878
Total	305,014,332	2,886,637	307,900,969

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.4 Loans and advances to customers (Continued)

(f) *Loans and advances overdue but not impaired*

Analysis of loans and advances overdue but not impaired by overdue days:

As at 30 June 2018	Up to 30 days	30-60 days	60-90 days	Over 90 days	Total
Corporate loans	696,858	528,584	149,092	370,384	1,744,918
Personal loans and advances	317,634	342,492	65,918	2,922	728,966
	1,014,492	871,076	215,010	373,306	2,473,884

As at 31 December 2017	Up to 30 days	30-60 days	60-90 days	over 90 days	Total
Corporate loans	443,096	1,168,762	138,393	1,112,943	2,863,194
Personal loans and advances	293,867	111,487	120,312	104,380	630,046
	736,963	1,280,249	258,705	1,217,323	3,493,240

The Group is of the view that these past due loans can be recovered from the operation income of borrowers, the payment from guarantors or disposal of collateral, are therefore not impaired.

As at 30 June 2018, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB4,824,846 thousand (31 December 2017: RMB4,012,645 thousand). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB1,050,840 thousand (31 December 2017: RMB1,355,400 thousand).

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.4 Loans and advances to customers (Continued)

(g) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	As at 30 June 2018	As at 31 December 2017
Corporate loans	2,835,887	2,681,323
Personal loans and advances	708,034	618,617
	3,543,921	3,299,940
Fair value of collateral		
Corporate loans	2,257,841	2,311,581
Personal loans and advances	446,416	558,101
	2,704,257	2,869,682

The fair value of collateral is estimated based on the latest external valuations available, considering the realization experience of the current collateral and the market conditions.

(h) Renegotiated loans and advances

Renegotiated loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. As at 30 June 2018, carrying value of the renegotiated loans held by the Group amounted to RMB907 million (31 December 2017: RMB795 million).

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.4 Loans and advances to customers (Continued)

(i) Overdue loans and advances by overdue days and collateral type

As at 30 June 2018					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	189,117	102,142	127,076	607	418,942
Guaranteed	817,612	949,919	211,763	91	1,979,385
Collateralized	1,174,718	1,715,044	471,781	257,538	3,619,081
Pledged	–	98	–	299	397
	2,181,447	2,767,203	810,620	258,535	6,017,805

As at 31 December 2017					
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	Total
Unsecured	83,178	123,653	76,477	–	283,308
Guaranteed	1,752,083	782,049	681,899	15	3,216,046
Collateralized	757,834	1,318,091	851,708	317,065	3,244,698
Pledged	44,380	98	4,650	–	49,128
	2,637,475	2,223,891	1,614,734	317,080	6,793,180

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Debt securities

Debt securities at AC

	As at 30 June 2018			
	Stage 1	Stage 2	Stage 3	Total
AAA	30,839,454	–	–	30,839,454
AA- to AA+	1,772,412	–	–	1,772,412
Unrated ^(a)	207,406,318	13,294,540	670,010	221,370,868
Total	240,018,184	13,294,540	670,010	253,982,734
Allowance for impairment losses	(2,689,257)	(3,717,958)	(301,505)	(6,708,720)
Net balance	237,328,927	9,576,582	368,505	247,274,014

Debt securities at FVOCI

	As at 30 June 2018			
	Stage 1	Stage 2	Stage 3	Total
AAA	18,143,179	479,074	–	18,622,253
AA- to AA+	4,125,497	–	–	4,125,497
A- To A+	448,789	–	–	448,789
Unrated	60,195,873	–	–	60,195,873
Total	82,913,338	479,074	–	83,392,412
Allowance for impairment losses	(131,829)	(130,697)	–	(262,526)
Net balance	82,781,509	348,377	–	83,129,886

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Debt securities (Continued)

The movements of debt securities at AC are as follows:

Six month period ended 30 June 2018	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January				–
Impact of adopting IFRS 9				4,132,558
Opening balance under IFRS 9	2,617,680	895,882	618,996	4,132,558
Addition	164,164	2,729,489	(317,491)	2,576,162
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(92,587)	92,587	–	–
Transfers to Stage 3	–	–	–	–
Write-off and transfer out	–	–	–	–
Recovery of loans and advances written off	–	–	–	–
At 30 June 2018	2,689,257	3,717,958	301,505	6,708,720

The movements of debt securities at FVOCI are as follows:

Six month period ended 30 June 2018	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January				304,067
Impact of adopting IFRS 9				(42,414)
Opening balance under IFRS 9	128,514	133,139	–	261,653
Addition	3,315	(2,442)	–	873
Stage conversion				
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
At 30 June 2018	131,829	130,697	–	262,526

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.5 Debt securities (Continued)

The table below presents an analysis of debt securities by external credit rating company:

As at 31 December 2017	Financial assets at fair value through profit or loss ^(a)	Available- for-sale ^(b)	Held-to- maturity ^(a)	Debt instruments classified as receivables ^(c)	Total
RMB securities					
AAA	360,188	14,187,373	31,552,317	–	46,099,878
AA- to AA+	48,377	4,238,828	658,756	–	4,945,961
A- to A+	109,393	268,789	1,014,456	–	1,392,638
Unrated ^(a)	2,177,141	124,914,967	27,902,872	215,928,674	370,923,654
Total	2,695,099	143,609,957	61,128,401	215,928,674	423,362,131
Allowance for impairment losses	–	(304,067)	–	(4,281,414)	(4,585,481)
Net balance	2,695,099	143,305,890	61,128,401	211,647,260	418,776,650

- (a) The unrated debt securities (held-for-trading and held-to-maturity) held by the Group mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies.
- (b) The unrated available-for-sale held by the Group mainly represent investments and trading securities issued by MOF, policy banks, other financial institutions, asset management schemes by securities firms or trust companies and other investment funds raised from issuing the principal-guaranteed wealth management products. The principle and income of asset management schemes and other investment funds are mainly guaranteed by financial institutions or third party companies, or secured by collateral. The Bank sets credit risk limit to the counter party banks and third party companies to mitigate the risk associated therewith.
- (c) Debt instruments classified as receivables mainly include the principal-guaranteed wealth management products issued by other banks and other fixed-income financial instruments.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.6 Foreclosed collateral

	As at 30 June 2018	As at 31 December 2017
Property and land use rights	314,496	267,550
Others	148,551	132,352
Total	463,047	399,902
Allowance for impairment losses (Note 26)	(150,238)	(150,238)
Net balance	312,809	249,664

Foreclosed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Foreclosed property cannot be used for operating activities. Foreclosed property is classified in the balance sheet within other assets.

47.1.7 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

As at 30 June 2018	PRC mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	84,261,097	-	-	84,261,097
Deposits with banks and other financial institutions	7,724,849	14,206	4,097,228	11,836,283
Placements with banks and other financial institutions	4,619,461	-	100,000	4,719,461
Financial assets at fair value through profit or loss	105,133,868	-	-	105,133,868
Derivative financial assets	481,002	-	-	481,002
Financial assets held under resale agreements	28,322,172	-	-	28,322,172
Loans and advances to customers	337,528,030	-	-	337,528,030
Financial investments				
– financial assets at fair value through other comprehensive income	83,463,738	-	-	83,463,738
Financial investments				
– financial assets at amortised cost	239,647,234	7,626,780	-	247,274,014
Finance lease receivables	31,313,618	-	-	31,313,618
Other financial assets	10,716,815	-	-	10,716,815
	933,211,884	7,640,986	4,197,228	945,050,098

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.1 Credit risk (Continued)

47.1.7 Concentration of risks of financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

As at 31 December 2017	PRC mainland	Hong Kong	Others	Total
Financial assets				
Balances with the central bank	91,065,465	–	–	91,065,465
Deposits with banks and other financial institutions	6,744,329	2,927,532	27,972	9,699,833
Placements with banks and other financial institutions	3,553,288	–	–	3,553,288
Financial assets at fair value through profit or loss	2,695,099	–	–	2,695,099
Derivative financial assets	67,479	–	–	67,479
Financial assets held under resale agreements	36,027,487	–	–	36,027,487
Loans and advances to customers	305,208,545	–	–	305,208,545
Investment securities				
– available-for-sale	143,305,890	–	–	143,305,890
Investment securities				
– held-to-maturity	61,128,401	–	–	61,128,401
Investment securities				
– debt instruments classified as receivables	211,647,260	–	–	211,647,260
Finance lease receivables	26,269,575	–	–	26,269,575
Other financial assets	7,496,686	–	–	7,496,686
	895,209,504	2,927,532	27,972	898,165,008

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk

47.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Groups' market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

The market risks arising from trading and non-trading activities are monitored by the Bank's Risk Management Department. Market risks arising from non-trading activities at the Bank level are monitored and controlled by Financial Planning Department while market risks resulting from trading activities at Bank level and non-trading activities of Financial Market Department are monitored and controlled by Financial Market Department. The Group also establishes daily, monthly and quarterly reporting mechanism in relation to market risk in which Financial Planning Department and Financial Market Department monitor and analyze market risk changes and quota execution before reporting to Risk Management Department and management on a regular basis.

47.2.2 Market risk measurement techniques

The Group mainly measures and controls market risk by conducting sensitivity analysis, foreign exchange exposure analysis, gap analysis, duration analysis, stress testing and the VaR (value at risk). The Group establishes strict authorization and exposure limits based on its overall ability to afford market risk, the types of products and the Group's business strategy. The Group sets different exposure limits and takes different quantitative measurements to manage different types of market risk of trading book and banking book. The Group also improves its funding risk management system, adjusts the related risk parameter and refines the risk measurement model in accordance with regulatory requirements.

47.2.3 Interest rate risk

The interest rate risk refers to the risk the adverse fluctuation of which has negative impact on the Group's financial performance. The Group's interest rate risk mainly arises from the mismatches between repricing dates of both on- and off-balance sheet assets and liabilities. Mismatches between repricing dates or contractual maturities may lead to the impact resulting from the fluctuation of the current interest rate on the net interest income. The Group is primarily exposed to interest rate risk through its lending, deposits and funding activities.

The Group performs business in PRC mainland in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest bearing loans and deposits in the same direction but not in parallel.

The PBOC established RMB benchmark interest rates whereby financial institutions are in a position to price their loans and deposits based on commercial and market factors. Meanwhile, the discount rate for RMB bills is market-oriented as well.

The table below summarizes the Group's exposure to interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 Interest rate risk (Continued)

As at 30 June 2018	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the central bank	84,274,202	-	-	-	-	1,197,858	85,472,060
Deposits with banks and other financial institutions	7,864,797	2,161,667	1,809,819	-	-	-	11,836,283
Placements with banks and other financial institutions	412,450	860,158	3,446,853	-	-	-	4,719,461
Financial assets at fair value through profit or loss	12,557,780	31,963,975	44,675,594	15,522,078	414,441	-	105,133,868
Derivatives financial assets	-	-	-	-	-	481,002	481,002
Financial assets held under resale agreements	28,322,172	-	-	-	-	-	28,322,172
Loans and advances to customers	97,870,784	27,014,587	131,635,932	64,130,326	16,876,401	-	337,528,030
Financial Investment							
- financial assets at fair value through other comprehensive income	6,319,984	6,206,971	17,764,651	36,469,540	16,631,266	71,326	83,463,738
- financial assets at amortised cost	1,912,424	10,639,398	24,532,087	173,114,552	37,075,553	-	247,274,014
Finance lease receivables	1,197,217	967,163	25,758,646	3,390,592	-	-	31,313,618
Other financial assets	-	-	-	-	-	10,716,815	10,716,815
Total assets	240,731,810	79,813,919	249,623,582	292,627,088	70,997,661	12,467,001	946,261,061
Liabilities							
Borrowing from central bank	(6,640,000)	(1,500,000)	(3,871,946)	(12,000,000)	-	-	(24,011,946)
Deposits from banks and other financial institutions	(26,009,866)	(39,414,273)	(16,902,158)	(16,933,736)	(71,909)	-	(99,331,942)
Placements from banks and other financial institutions	(13,306,205)	(11,264,816)	(17,242,360)	-	-	-	(41,813,381)
Derivatives financial liabilities	-	-	-	-	-	(93,452)	(93,452)
Financial assets sold under repurchase agreements	(38,898,958)	(197,153)	(2,924,482)	-	-	-	(42,020,593)
Deposits from customers	(328,305,864)	(32,944,469)	(82,022,606)	(89,266,241)	(12,561)	-	(532,551,741)
Debt securities issued	(17,275,553)	(36,268,651)	(45,952,610)	(23,788,365)	(7,494,401)	-	(130,779,580)
Other financial liabilities	-	-	-	-	-	(15,535,297)	(15,535,297)
Total liabilities	(430,436,446)	(121,589,362)	(168,916,162)	(141,988,342)	(7,578,871)	(15,628,749)	(886,137,932)
Total interest rate sensitivity gap	(189,704,636)	(41,775,443)	80,707,420	150,638,746	63,418,790	(3,161,748)	60,123,129

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 Interest rate risk (Continued)

As at 31 December 2017	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the central bank	91,065,465	-	-	-	-	1,292,408	92,357,873
Deposits with banks and other financial institutions	7,494,144	1,968,036	237,653	-	-	-	9,699,833
Placements with banks and other financial institutions	-	2,053,664	1,499,624	-	-	-	3,553,288
Financial assets at fair value through profit or loss	319,505	793,586	521,511	1,050,354	10,143	-	2,695,099
Derivatives financial assets	-	-	-	-	-	67,479	67,479
Financial assets held under resale agreements	35,927,634	-	99,853	-	-	-	36,027,487
Loans and advances to customers	88,510,478	24,416,683	119,031,333	57,989,624	15,260,427	-	305,208,545
Investment securities							
– available-for-sale	13,017,581	25,290,707	38,123,956	50,879,415	15,984,731	9,500	143,305,890
– held-to-maturity	799,977	630,134	5,047,080	32,864,828	21,786,382	-	61,128,401
– debt instruments classified as receivables	17,969,734	18,292,780	42,282,027	123,206,219	9,896,500	-	211,647,260
Finance lease receivables	21,175,677	1,234,723	1,910,210	1,948,965	-	-	26,269,575
Other financial assets	-	-	-	-	-	7,496,686	7,496,686
Total assets	276,280,195	74,680,313	208,753,247	267,939,405	62,938,183	8,866,073	899,457,416
Liabilities							
Borrowing from central bank	(21,335,527)	(240,000)	(4,500,000)	(9,500,000)	-	-	(35,575,527)
Deposits from banks and other financial institutions	(25,088,857)	(38,018,614)	(16,303,653)	(16,334,112)	(69,363)	-	(95,814,599)
Placements from banks and other financial institutions	-	(10,888,078)	(14,285,000)	(254,834)	-	-	(25,427,912)
Derivatives financial liabilities	-	-	-	-	-	(747,449)	(747,449)
Financial assets sold under repurchase agreements	(36,527,152)	-	(4,327,996)	-	-	-	(40,855,148)
Deposits from customers	(316,823,968)	(31,730,703)	(78,647,930)	(85,593,538)	(12,043)	-	(512,808,182)
Debt securities issued	(26,148,833)	(14,414,861)	(50,335,307)	(12,298,553)	(11,982,803)	-	(115,180,357)
Other financial liabilities	-	-	-	-	-	(16,480,407)	(16,480,407)
Total liabilities	(425,924,337)	(95,292,256)	(168,399,886)	(123,981,037)	(12,064,209)	(17,227,856)	(842,889,581)
Total interest rate sensitivity gap	(149,644,142)	(20,611,943)	40,353,361	143,958,368	50,873,974	(8,361,783)	56,567,835

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 Interest rate risk (Continued)

The Group mainly narrows its interest rate sensitivity gap between assets and liabilities through shorter durations for investments and resetting loan price.

The currency for the Group's majority of interest-bearing assets and liabilities is RMB. The potential impact on net interest income as at the balance sheet dates stated below with 100 bps changes along the yield curve is as follows:

	Estimated changes in net interest income	
	As at 30 June 2018	As at 31 December 2017
100 bps up along the yield curve	913,929	1,164,430
100 bps down along the yield curve	(913,929)	(1,164,430)

The sensitivity analysis on other comprehensive income reflects only the effect of changes in fair value of those financial instruments classified as available-for-sale financial assets held, whose fair value changes are recorded as an element of other comprehensive income (bond investments available for sale in 2017).

The potential impact is as follows:

	Six months ended 30 June 2018	Year ended 31 December 2017
100 bps up	(2,033,078)	(1,406,879)
100 bps down	2,155,160	1,493,916

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.3 Interest rate risk (Continued)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- Demand deposits will not be re-priced;
- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on customers' behaviour resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

47.2.4 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for control over currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimize the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorization management of foreign currency exposure is categorized by business type and traders' limits of authority.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 Currency risk (Continued)

The table below summarizes the Group's exposure to foreign currency exchange rate risk at balance sheet date. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency:

	RMB	USD	EUR	Others	Total
As at 30 June 2018					
Assets					
Cash and balances with the central bank	85,227,558	243,365	91	1,046	85,472,060
Deposits with banks and other financial institutions	7,437,591	3,571,535	61,332	765,825	11,836,283
Placements with banks and other financial institutions	2,138,987	2,580,474	-	-	4,719,461
Financial assets at fair value through profit or loss	105,133,868	-	-	-	105,133,868
Derivative financial assets	481,002	-	-	-	481,002
Financial assets held under resale agreements	28,322,172	-	-	-	28,322,172
Loans and advances to customers	337,205,296	322,734	-	-	337,528,030
Financial investments					
– financial assets at fair value through other comprehensive income	83,463,738	-	-	-	83,463,738
– financial assets at amortised cost	239,647,234	7,626,780	-	-	247,274,014
Finance lease receivables	31,313,618	-	-	-	31,313,618
Other financial assets	10,599,757	114,230	-	2,828	10,716,815
Total assets	930,970,821	14,459,118	61,423	769,699	946,261,061
Liabilities					
Borrowing from central bank	(24,011,946)	-	-	-	(24,011,946)
Deposits from banks and other financial institutions	(84,657,642)	(14,674,159)	-	(141)	(99,331,942)
Placements from banks and other financial institutions	(29,380,790)	(12,432,591)	-	-	(41,813,381)
Derivative financial liabilities	(93,452)	-	-	-	(93,452)
Financial assets sold under repurchase agreements	(42,020,593)	-	-	-	(42,020,593)
Deposits from customers	(528,994,649)	(3,480,604)	(18,979)	(57,509)	(532,551,741)
Debt securities issued	(130,779,580)	-	-	-	(130,779,580)
Other financial liabilities	(15,295,493)	(239,798)	(2)	(4)	(15,535,297)
Total liabilities	(855,234,145)	(30,827,152)	(18,981)	(57,654)	(886,137,932)
Net on-balance sheet financial position	75,736,676	(16,368,034)	42,442	712,045	60,123,129
Financial guarantees and credit commitments	56,527,974	7,099,649	5,272,495	3,898,131	72,798,249

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2017					
Assets					
Cash and balances with the central bank	92,172,406	184,043	163	1,261	92,357,873
Deposits with banks and other financial institutions	6,536,809	2,997,571	83,198	82,255	9,699,833
Placements with banks and other financial institutions	2,050,422	1,502,866	–	–	3,553,288
Financial assets at fair value through profit or loss	2,695,099	–	–	–	2,695,099
Derivative financial assets	67,479	–	–	–	67,479
Financial assets held under resale agreements	36,027,487	–	–	–	36,027,487
Loans and advances to customers	304,227,694	968,354	12,497	–	305,208,545
Investment securities					
– available-for-sale	140,038,790	3,267,100	–	–	143,305,890
– held-to-maturity	61,128,401	–	–	–	61,128,401
– debt instruments classified as receivables	211,647,260	–	–	–	211,647,260
Finance lease receivables	26,269,575	–	–	–	26,269,575
Other financial assets	7,382,900	112,635	–	1,151	7,496,686
Total assets	890,244,322	9,032,569	95,858	84,667	899,457,416
Liabilities					
Borrowing from central bank	(35,575,527)	–	–	–	(35,575,527)
Deposits from banks and other financial institutions	(81,659,916)	(14,154,547)	–	(136)	(95,814,599)
Placements from banks and other financial institutions	(24,308,732)	(1,119,180)	–	–	(25,427,912)
Derivative financial liabilities	(747,449)	–	–	–	(747,449)
Financial assets sold under repurchase agreements	(40,855,148)	–	–	–	(40,855,148)
Deposits from customers	(509,382,964)	(3,351,566)	(18,275)	(55,377)	(512,808,182)
Debt securities issued	(115,180,357)	–	–	–	(115,180,357)
Other financial liabilities	(16,197,101)	(283,297)	(2)	(7)	(16,480,407)
Total liabilities	(823,907,194)	(18,908,590)	(18,277)	(55,520)	(842,889,581)
Net on-balance sheet financial position	66,337,128	(9,876,021)	77,581	29,147	56,567,835
Financial guarantees and credit commitments	48,372,983	6,075,420	4,511,860	3,335,768	62,296,031

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.2 Market risk (Continued)

47.2.4 Currency risk (Continued)

The Group's foreign currency exposure is not material. The major foreign currency exposure is with USD and EUR. The potential impact on net profits resulted from foreign currency translation gain or loss with 1% fluctuation of foreign currency against RMB is as follows:

	Estimated change in net profit/(loss)	
	As at 30 June 2018	As at 31 December 2017
1% of appreciation of FX against RMB	(117,102)	(73,270)
1% of depreciation of FX against RMB	117,102	73,270

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index, regardless of:

- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on the customers' behaviour resulted from interest rate changes;
- No consideration of impact on market price resulted from interest rate changes;
- No consideration of actions taken by the Group.

Therefore, the actual changes of net profit may differ from the analysis above.

47.3 Liquidity risk

47.3.1 Overview

Keeping a match between the maturity dates of assets and liabilities and maintaining an effective control over mismatch is of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are both key factors when evaluating its' exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan drawdowns, guarantees and other calls on cash settled derivatives. According to previous experience, a large portion of matured deposits is not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.2 Cash flow of non-derivatives

The table below presents the cash flows receivable and payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, and the Group manages the liquidity risk based on the estimation of future cash flows.

As at 30 June 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Borrowing from central bank	(6,642,943)	(1,509,200)	(3,992,030)	(12,242,056)	-	(24,386,229)
Deposits from banks and other financial institutions	(26,015,167)	(39,452,894)	(17,162,174)	(16,950,620)	(88,795)	(99,669,650)
Placements from banks and other financial institutions	(13,323,894)	(11,340,556)	(17,532,508)	-	-	(42,196,958)
Financial assets sold under repurchase agreements	(38,914,305)	(198,467)	(2,999,042)	-	-	(42,111,814)
Deposits from customers	(328,352,431)	(33,095,636)	(83,400,320)	(93,737,248)	(15,554)	(538,601,189)
Debt securities in issued	(20,487,000)	(37,428,400)	(47,322,000)	(20,049,800)	(13,911,600)	(139,198,800)
Other financial liabilities	(5,878,995)	-	-	-	-	(5,878,995)
Total liabilities(contractual maturity)	(439,614,735)	(123,025,153)	(172,408,074)	(142,979,724)	(14,015,949)	(892,043,635)
Assets						
Cash and balances with the central bank	85,472,060	-	-	-	-	85,472,060
Deposits with banks and other financial institutions	7,859,437	2,164,744	1,857,665	-	-	11,881,846
Placements with banks and other financial institutions	412,561	864,177	3,589,524	-	-	4,866,262
Financial assets at fair value through profit or loss	12,997,809	32,672,060	45,996,123	16,398,343	616,409	108,680,744
Financial assets held under resale agreements	28,340,004	-	-	-	-	28,340,004
Loans and advances to customers	20,561,322	25,784,211	99,993,561	81,500,796	195,554,662	423,394,552
Financial investments						
- financial assets at fair value through other comprehensive income	6,851,001	6,861,692	20,137,271	43,112,426	18,688,882	95,651,272
- financial assets at amortised cost	2,384,066	13,202,981	34,696,476	205,871,508	41,129,584	297,284,615
Finance lease receivables	-	2,990,941	8,508,532	23,912,289	221,726	35,633,488
Other financial assets	3,250,739	-	-	-	-	3,250,739
Financial assets held for managing liquidity risk (contractual maturity)	168,128,999	84,540,806	214,779,152	370,795,362	256,211,263	1,094,455,582
Net liquidity	(271,485,736)	(38,484,347)	42,371,078	227,815,638	242,195,314	202,411,947

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.2 Cash flow of non-derivatives (Continued)

As at 31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Borrowing from central bank	(21,358,158)	(240,609)	(4,638,867)	(9,664,844)	-	(35,902,478)
Deposits from banks and other financial institutions	(25,141,460)	(38,401,833)	(18,883,661)	(16,501,658)	(236,909)	(99,165,521)
Placements from banks and other financial institutions	-	(10,947,679)	(14,461,519)	(262,357)	-	(25,671,555)
Financial assets sold under repurchase agreements	(36,546,053)	-	(4,412,017)	-	-	(40,958,070)
Deposits from customers	(316,868,083)	(31,878,893)	(79,797,930)	(91,220,949)	(14,913)	(519,780,768)
Debt securities in issued	(26,210,000)	(14,609,000)	(52,737,452)	(15,509,800)	(14,173,600)	(123,239,852)
Other financial liabilities	(7,209,119)	-	-	-	-	(7,209,119)
Total liabilities(contractual maturity)	(433,332,873)	(96,078,014)	(174,931,446)	(133,159,608)	(14,425,422)	(851,927,363)
Assets						
Cash and balances with the central bank	92,357,873	-	-	-	-	92,357,873
Deposits with banks and other financial institutions	7,496,317	1,978,620	240,555	-	-	9,715,492
Placements with banks and other financial institutions	-	2,074,553	1,546,275	-	-	3,620,828
Financial assets at fair value through profit or loss	326,930	826,810	568,821	1,176,116	16,388	2,915,065
Financial assets held under resale agreements	35,958,105	-	99,853	-	-	36,057,958
Loans and advances to customers	19,730,369	25,978,769	90,933,001	44,680,007	129,702,901	311,025,047
Investment securities						
- available-for-sale	13,377,702	26,527,154	40,645,996	61,027,109	17,916,524	159,494,485
- held-to-maturity	905,522	1,230,009	6,587,665	39,517,438	23,417,857	71,658,491
- debt instruments classified as receivables	19,040,511	20,958,130	48,730,771	131,056,492	11,667,171	231,453,075
Finance lease receivables	3,257,844	1,882,652	4,639,552	19,491,943	255,270	29,527,261
Other financial assets	1,589,271	-	-	-	-	1,589,271
Financial assets held for managing liquidity risk (contractual maturity)	194,040,444	81,456,697	193,992,489	296,949,105	182,976,111	949,414,846
Net liquidity	(239,292,429)	(14,621,317)	19,061,043	163,789,497	168,550,689	97,487,483

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.3 Derivative financial instruments cash flow

Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forward contracts. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet of 30 June 2018 and 31 December 2017 to the contractual maturity date. The figures disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
As at 30 June 2018						
Foreign exchange derivatives						
– Outflow	(2,655,684)	(9,791,789)	(4,227,963)	–	–	(16,675,436)
– Inflow	2,769,228	10,025,123	4,266,824	–	–	17,061,175
	113,544	233,334	38,861	–	–	385,739
As at 31 December 2017						
Foreign exchange derivatives						
– Outflow	(349,979)	(6,300,940)	(8,971,814)	–	–	(15,622,733)
– Inflow	327,541	5,891,017	8,594,848	–	–	14,813,406
	(22,438)	(409,923)	(376,966)	–	–	(809,327)

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.4 Maturity analysis

The table below analyses the Group's net assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

As at 30 June 2018	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	85,472,060	-	-	-	-	-	-	-	85,472,060
Deposits with banks and other financial institutions	5,633,757	2,231,041	2,161,667	1,809,818	-	-	-	-	11,836,283
Placements with banks and other financial institutions	-	412,450	860,158	3,446,853	-	-	-	-	4,719,461
Financial assets at fair value through profit or loss	-	11,185,453	31,963,975	44,675,593	15,522,078	414,441	1,372,328	-	105,133,868
Derivative financial assets	-	59,533	280,478	120,907	20,084	-	-	-	481,002
Financial assets held under resale agreements	-	28,322,172	-	-	-	-	-	-	28,322,172
Loans and advances to customers	-	17,650,718	22,120,512	96,169,804	50,457,193	148,732,271	2,397,532	-	337,528,030
Financial investments									
- financial assets at fair value through other comprehensive income	-	6,319,984	6,206,971	17,764,651	36,469,540	16,631,266	-	71,326	83,463,738
- financial assets at amortised cost	-	1,044,634	10,511,708	24,659,777	173,114,552	37,075,553	867,790	-	247,274,014
Finance lease receivables	-	-	24,475	225,613	29,296,119	1,755,855	11,556	-	31,313,618
Other financial assets	33,566	3,557,122	774,502	1,402,775	3,648,805	1,263,877	35,111	1,057	10,716,815
Total assets	91,139,383	70,783,107	74,904,446	190,275,791	308,528,371	205,873,263	4,684,317	72,383	946,261,061
Borrowing from central bank	-	(6,640,000)	(1,500,000)	(3,871,946)	(12,000,000)	-	-	-	(24,011,946)
Deposits from banks and other financial institutions	(3,492,592)	(22,517,274)	(39,414,273)	(16,902,159)	(16,933,735)	(71,909)	-	-	(99,331,942)
Placements from banks and other financial institutions	-	(13,306,205)	(11,264,816)	(17,242,360)	-	-	-	-	(41,813,381)
Derivative financial liabilities	-	(9,982)	(26,990)	(40,870)	(15,610)	-	-	-	(93,452)
Financial assets sold under repurchase agreements	-	(38,898,958)	(197,153)	(2,924,482)	-	-	-	-	(42,020,593)
Deposits from customers	(301,138,398)	(27,167,466)	(32,944,469)	(82,022,606)	(89,266,241)	(12,561)	-	-	(532,551,741)
Debt securities in issued	-	(17,275,553)	(36,268,651)	(45,952,610)	(23,788,365)	(7,494,401)	-	-	(130,779,580)
Other financial liabilities	(610,633)	(6,958,905)	(1,011,047)	(3,791,336)	(2,539,113)	(624,263)	-	-	(15,535,297)
Total liabilities	(305,241,623)	(132,774,343)	(122,627,399)	(172,748,369)	(144,543,064)	(8,203,134)	-	-	(886,137,932)
Net liquidity gap	(214,102,240)	(61,991,236)	(47,722,953)	17,527,422	163,985,307	197,670,129	4,684,317	72,383	60,123,129

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.4 Maturity analysis (Continued)

As at 31 December 2017	Repayable					Over			Total
	on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years	Overdue	Indefinite	
Cash and balances with the central bank	92,357,873	-	-	-	-	-	-	-	92,357,873
Deposits with banks and other financial institutions	1,387,299	6,106,844	1,968,036	237,654	-	-	-	-	9,699,833
Placements with banks and other financial institutions	-	-	2,053,664	1,499,624	-	-	-	-	3,553,288
Financial assets at fair value through profit or loss	-	319,505	793,586	521,511	1,050,354	10,143	-	-	2,695,099
Derivative financial assets	-	6	3,255	55,880	8,338	-	-	-	67,479
Financial assets held under resale agreements	-	35,927,634	-	99,853	-	-	-	-	36,027,487
Loans and advances to customers	-	19,022,306	23,967,970	89,447,903	43,642,458	126,163,830	2,964,078	-	305,208,545
Investment securities									
- available-for-sale	-	13,547,671	20,703,547	38,916,539	55,217,409	14,804,721	106,503	9,500	143,305,890
- held-to-maturity	-	799,977	630,134	5,047,080	32,864,828	21,786,382	-	-	61,128,401
- debt instruments classified as receivables	-	34,310,661	19,159,118	33,673,458	113,386,423	10,936,600	181,000	-	211,647,260
Finance lease receivables	-	21,175,677	1,234,723	1,910,210	1,948,965	-	-	-	26,269,575
Other financial assets	395,148	1,912,433	2,017,787	1,512,511	1,079,355	565,033	14,419	-	7,496,686
Total assets	94,140,320	133,122,714	72,531,820	172,922,223	249,198,130	174,266,709	3,266,000	9,500	899,457,416
Borrowing from the central bank	-	(21,335,527)	(240,000)	(4,500,000)	(9,500,000)	-	-	-	(35,575,527)
Deposits from banks and other financial institutions	(3,368,919)	(21,719,938)	(38,018,614)	(16,303,653)	(16,334,112)	(69,363)	-	-	(95,814,599)
Placements from banks and other financial institutions	-	-	(10,913,078)	(14,260,000)	(254,834)	-	-	-	(25,427,912)
Derivative financial liabilities	-	(22,171)	(397,176)	(325,870)	(2,232)	-	-	-	(747,449)
Financial assets sold under repurchase agreements	-	(36,527,152)	-	(4,327,996)	-	-	-	-	(40,855,148)
Deposits from customers	(290,774,260)	(26,049,708)	(31,730,703)	(78,647,930)	(85,593,538)	(12,043)	-	-	(512,808,182)
Debt securities in issued	-	(26,148,833)	(14,414,861)	(50,335,307)	(12,298,553)	(11,982,803)	-	-	(115,180,357)
Other financial liabilities	(583,126)	(8,039,988)	(964,601)	(3,863,205)	(2,430,115)	(599,372)	-	-	(16,480,407)
Total liabilities	(294,726,305)	(139,843,317)	(96,679,033)	(172,563,961)	(126,413,384)	(12,663,581)	-	-	(842,889,581)
Net liquidity gap	(200,585,985)	(6,720,603)	(24,147,213)	358,262	122,784,746	161,603,128	3,266,000	9,500	56,567,835

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.3 Liquidity risk (Continued)

47.3.5 Off-balance sheet items

The Group provides guarantees and letters of credit to customers based on their credit ratings and amount of cash collaterals. Usually, customers will not withdraw the amount committed by the Group in the guarantees or letters of credit in full, therefore, funds required for guarantees and letters of credit are not so much as required for other commitments of the Group. Meanwhile, the Group may be discharged of its obligations due to overdue or termination of the commitments. As a result, the contractual amount for credit commitment cannot represent the actual funds required.

As at 30 June 2018	Within 1 year	1-5 years	Over 5 years	Total
Bank acceptance	30,047,025	110,000	–	30,157,025
Letters of credit	17,291,652	1,054,864	–	18,346,516
Letters of guarantee	3,187,081	1,835,922	144,925	5,167,928
Loan commitments	85,000	40,000	–	125,000
Unused credit card lines	191,467	18,808,679	1,634	19,001,780
	50,802,225	21,849,465	146,559	72,798,249

As at 31 December 2017	Within 1 year	1-5 years	Over 5 years	Total
Bank acceptance	27,513,009	–	–	27,513,009
Letters of credit	7,408,942	451,977	–	7,860,919
Letters of guarantee	9,024,411	1,228,222	446,814	10,699,447
Loan commitments	1,702,384	30,000	–	1,732,384
Unused credit card lines	146,008	14,343,019	1,245	14,490,272
	45,794,754	16,053,218	448,059	62,296,031

47.4 Fair value of financial assets and liabilities

(a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Thomson Reuters, Bloomberg and China Bond.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt investments with significant unobservable inputs.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(b) *Financial instruments not measured at fair value*

Fair value estimates are made in accordance with relevant market information and information related to various financial instruments at a particular point in time. The fair value of all kinds of financial instruments is based on the following methods and assumptions:

- (i) Balances with central bank, deposits and placements with banks, financial assets held under resale agreements, deposits and placements from banks, financial assets sold under repurchase agreements, other assets and other liabilities

Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value is approximate to the fair value.

- (ii) *Loans and advances to customers*

Since most loans and advances to customers are repriced at least annually according to market interest rate, their carrying value is approximate to the fair value.

- (iii) *Deposits from customers*

The fair value of a checking account, a savings account and a short-term money market deposit shall be the amount currently payable to customers. The fair value of a time deposit is calculated based on the discounted cash flow method, and the discount rate is the current rate of a time deposit of which the term is similar to the remaining term of the time deposit being valued. At the end of the reporting period, the carrying value of deposits from customers is approximate to the fair value.

- (iv) *Finance lease receivables*

The balance of finance lease receivables is calculated based on effective interest rate method. Since the actual interest rate of a financial leasing is linked and timely adjusted to the interest rates that PBOC stipulates, the carrying value is approximate to fair value.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

(iv) Finance lease receivables (Continued)

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet, including financial assets at amortised cost and debt securities in issued.

	As at 30 June 2018				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– financial assets at amortised cost	247,274,014	-	247,257,390	-	247,257,390
Financial Liabilities					
Debt securities issued	(130,779,580)	-	(129,271,340)	-	(129,271,340)

	As at 31 December 2017				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Investment securities					
– Held-to-maturity	61,128,401	-	59,264,266	-	59,264,266
Investment securities					
– Debt instruments classified as receivables	211,647,260	-	211,538,809	-	211,538,809
Financial Liabilities					
Debt securities issued	(115,180,357)	-	(113,167,271)	-	(113,167,271)

(i) Financial assets at amortised cost (Debt instruments classified as receivables and held-to-maturity investments as at 31 Dec. 2017)

Financial assets at amortised cost (Held-to-maturity investments as at 31 Dec. 2017) whose fair value is based on quoted market prices are included in level 1. As for financial assets at amortised cost (Debt instruments classified as receivables as at 31 Dec. 2017), when such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3

(ii) Debt securities in issued

If the fair value is based on quoted market prices, the fair value measurement will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to fair value are observable, it is included in level 2.

The other financial instruments not measured at fair value in the condensed consolidated financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. Due to their short duration or the floating rate which is mark to market, the difference between carrying value and fair value of these financial assets are not significant.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value

As at 30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	1,022,920	–	1,022,920
– Interbank certificates of deposit	–	2,550,511	–	2,550,511
– Asset management schemes by securities firms or trust companies	–	94,857,407	–	94,857,407
– Wealth management products	–	6,703,030	–	6,703,030
Derivative financial assets		481,002		481,002
Financial assets at fair value through other comprehensive income				
– Debt securities	–	60,771,094	–	60,771,094
– Interbank certificates of deposit	–	22,621,318	–	22,621,318
– Equity securities	–	71,326	–	71,326
Loans and advances to customers at fair value through other comprehensive income				
– Discounted bills	–	13,061,637	–	13,061,637
Total assets		202,140,245		202,140,245
Derivative financial liabilities		93,452		93,452
Total liabilities		93,452		93,452
As at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	1,761,885	–	1,761,885
– Interbank certificates of deposit	–	933,214	–	933,214
Derivative financial assets	–	67,479	–	67,479
Available-for-sale				
– Debt securities	–	57,067,186	–	57,067,186
– Interbank certificates of deposit	–	14,117,912	–	14,117,912
– Equity securities	–	9,500	–	9,500
– Asset management schemes by securities firms or trust companies	–	62,111,292	–	62,111,292
– Wealth management products	–	10,000,000	–	10,000,000
Total assets	–	146,068,468	–	146,068,468
Derivative financial liabilities	–	(747,449)	–	(747,449)
Total liabilities	–	(747,449)	–	(747,449)

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.4 Fair value of financial assets and liabilities (Continued)

(c) *Financial instruments measured at fair value (Continued)*

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

Financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income (available-for-sale financial assets as at 31 Dec. 2017) and derivative financial instruments are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, the fair values will be estimated using the discounted cash flow or pricing models. For debt securities, the fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

47.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management also aims to stimulate expansion of capital scale and to improve risk management.

The Group prudently set the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, like limit management to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

From 1 January 2013 onward, the Group started to implement "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC on 7 June 2012.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.5 Capital management (Continued)

The table below summarizes the Capital Adequacy Ratios of the Group as at 30 June 2018:

		As at 30 June 2018	As at 31 December 2017
Common Equity Tier-one Capital Adequacy Ratio	(a)	8.51%	8.48%
Tier-one Capital Adequacy Ratio	(a)	9.41%	9.46%
Capital Adequacy Ratio	(a)	11.97%	12.19%
Common Equity Tier-one Capital	(b)	57,730,055	52,795,964
Deductible Items from Common Equity Tier-one Capital	(c)	(158,003)	(164,015)
Net Common Equity Tier-one Capital		57,572,052	52,631,949
Additional Tier-one Capital	(d)	6,145,817	6,134,456
Net Tier-one Capital		63,717,869	58,766,405
Tier-two capital	(e)	17,294,615	16,904,817
Net Capital		81,012,484	75,671,222
Risk-weighted Assets	(f)	676,799,920	620,978,790

Pursuant to the "Capital Rules for Commercial Banks (Provisional)":

- (a) The scope of consolidation related to the calculation of the Group's Capital Adequacy Ratios includes Institutions and affiliated financial subsidiaries specified in the Regulation. The Common Equity Tier-one Capital Adequacy Ratio is calculated as Net Common Equity Tier-one Capital divided by Risk-weighted Assets. The Tier-one Capital Adequacy Ratio is calculated as Net Tier-one Capital divided by Risk-weighted Assets. The Capital Adequacy Ratio is calculated as Net Capital divided by Risk-weighted Assets.
- (b) The Group's Common Equity Tier-one Capital includes: ordinary share capital, capital reserve (subject to regulatory limitations), surplus reserve, general reserve, retained earnings and, non-controlling interests (to the extent permitted in the Common Equity Tier-one Capital under the Regulation).
- (c) The Group's Deductible Items from Common Equity Tier-one Capital include: other intangible assets (excluding land-use rights), and Common Equity Tier-one Capital investments made in financial institutions over which the Group has control but are outside the regulatory consolidation scope for the Capital Adequacy Ratios calculation.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in thousands of Renminbi, unless otherwise stated)

47 FINANCIAL RISK MANAGEMENT (Continued)

47.5 Capital management (Continued)

- (d) The Group's Additional Tier-one Capital includes preferred shares and non-controlling interests (to the extent permitted in the Additional Tier-one Capital definition under the Regulation).
- (e) The Group's Tier-two Capital includes: Tier-two capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests (to the extent permitted in the Tier-two Capital definition under the Regulation).
- (f) Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets.

47.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the condensed consolidated financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the condensed consolidated financial statements either.

	As at 30 June 2018	As at 31 December 2017
Entrusted loans	109,031,364	126,523,602
Entrusted wealth management products	91,964,412	86,306,980

48 SUBSEQUENT EVENT

Approved by the board of directors of the bank on August 24, 2018, the bank intends to pay a dividend of USD54,266,666.67 to foreign preferred shareholders, of which USD48,840,000 is actually paid to foreign preferred shareholders with a coupon dividend rate of 5.5%. In accordance with the relevant laws and regulations, the withholding of income tax at the rate of 10% is USD5,426,666.67.

Appendix I – Unaudited Supplementary Financial Information

(All amounts expressed in thousands of RMB unless otherwise stated)

According to Hong Kong Listing Rules and disclosure requirements of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 30 June 2018	As at 31 December 2017
RMB current assets to RMB current liabilities	32.88%	44.29%
Foreign currency current assets to foreign currency current liabilities	20.63%	71.93%

2 CURRENCY CONCENTRATIONS

	USD	EUR	Other	Total
As at 30 June 2018				
Spot assets	14,459,118	61,423	769,699	15,290,240
Spot liabilities	(30,827,152)	(18,981)	(57,654)	(30,903,787)
Forward purchases	16,832,520	–	251,702	17,084,222
Forward sales	(130,832)	–	–	(130,832)
Net long/(short) position	333,654	42,442	963,747	1,339,843
As at 31 December 2017				
Spot assets	9,032,569	95,858	84,667	9,213,094
Spot liabilities	(18,908,590)	(18,277)	(55,520)	(18,982,387)
Forward purchases	14,793,997	–	–	14,793,997
Forward sales	(19,134)	–	–	(19,134)
Net long/(short) position	4,898,842	77,581	29,147	5,005,570

Appendix I – Unaudited Supplementary Financial Information

(All amounts expressed in thousands of RMB unless otherwise stated)

3 INTERNATIONAL CLAIMS

International claims are the sum of cross-border claims in all currencies and local claims in foreign currencies. The Group is principally engaged in business operations within Mainland China, and regards all the claims on third parties outside Mainland China as cross border claims.

International claims include balances with central bank, deposits with banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets held for trading, financial assets designated at fair value through profit or loss, loans and advances to customers, financial assets held under resale agreements, financial assets at fair value through other comprehensive income and financial assets at amortised cost.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is 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.

	Banks and other financial institutions	Non-bank private institutions	Total
As at 30 June 2018			
Asia Pacific excluding China mainland	8,383,207	–	8,383,207
– Hong Kong	7,640,806	–	7,640,806
Europe	24,111	–	24,111
North and South America	3,330,550	–	3,330,550
Oceania	167	–	167
Total	11,738,035	–	11,738,035
As at 31 December 2017			
Asia Pacific excluding China mainland	4,769,827	980,851	5,750,678
– Hong Kong	2,927,532	–	2,927,532
Europe	6,819	–	6,819
North and South America	246,468	–	246,468
Oceania	934	–	934
Total	5,024,048	980,851	6,004,899

Appendix I – Unaudited Supplementary Financial Information

(All amounts expressed in thousands of RMB unless otherwise stated)

4 LOANS AND ADVANCES TO CUSTOMERS

4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 30 June 2018	As at 31 December 2017
Total loans and advances to customers which have been overdue for		
within 3 months	2,181,447	2,637,474
between 3 to 6 months	2,112,542	1,249,335
between 6 to 12 months	654,661	974,557
over 12 months	1,069,155	1,931,814
	6,017,805	6,793,180
Percentage		
within 3 months	36.25%	38.83%
between 3 to 6 months	35.10%	18.39%
between 6 to 12 months	10.88%	14.35%
over 12 months	17.77%	28.43%
	100.00%	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Anhui Province	Jiangsu Province	Total
As at 30 June 2018			
Overdue loans and advances to customers	5,703,652	314,153	6,017,805
Individually assessed	(3,400,427)	(224,009)	(3,624,436)
Collectively assessed	-	-	-
As at 31 December 2017			
Overdue loans and advances to customers	5,154,914	1,638,266	6,793,180
Individually assessed	(868,767)	(152,221)	(1,020,988)
Collectively assessed	(1,502,439)	(455,147)	(1,957,586)

Appendix I – Unaudited Supplementary Financial Information

(All amounts expressed in thousands of RMB unless otherwise stated)

4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.1 Overdue loans and advances to customers (Continued)

Fair value of collaterals against overdue loans and advances to customers:

	As at 30 June 2018	As at 31 December 2017
Fair value of collaterals		
Corporate loans	7,082,687	4,857,996
Personal loans and advances	1,497,256	1,400,543
	8,579,943	6,258,539

4.2 Identified impaired loans and advances

	Anhui Province	Jiangsu Province	Total
As at 30 June 2018			
Identified impaired loans and advances			
for which allowance is	3,333,446	210,475	3,543,921
Individually assessed	(2,879,529)	(103,931)	(2,983,460)
Collectively assessed	–	–	–
As at 31 December 2017			
Identified impaired loans and advances			
for which allowance is	3,062,737	237,202	3,299,939
Individually assessed	(588,601)	(93,246)	(681,847)
Collectively assessed	(922,565)	(63,027)	(985,592)



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