BANK OF TIANJIN CO., LTD.*

天 津 銀 行 股 份 有 限 公 司*

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

(Stock Code: 1578)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2018

The board of directors (the "**Board**") of Bank of Tianjin Co., Ltd. (the "**Bank**") hereby announces the unaudited consolidated interim results of the Bank for the six months ended June 30, 2018 (the "**Reporting Period**"). The content of this results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") in relation to preliminary announcements of interim results. The interim financial statements of the Bank for the six months ended June 30, 2018 have been prepared in accordance with the International Financial Reporting Standards (the "**IFRSs**") and reviewed by Deloitte Touche Tohmatsu in accordance with International Standard on Review Engagements. Such interim results have also been reviewed and confirmed by the Board and the audit committee of the Board. Unless otherwise stated, financial data of the Bank and its subsidiaries are presented in Renminbi.

1. CORPORATE INFORMATION

1.1 Basic Information

Legal Chinese Name	天津銀行股份有限公司
Abbreviation in Chinese	天津銀行
Legal English Name	Bank of Tianjin Co., Ltd.
Abbreviation in English	Bank of Tianjin
Legal Representative	LI Zongtang
Authorized Representatives	ZHANG Furong, NGAI Wai Fung
Listing Place of H Shares	The Stock Exchange of Hong Kong Limited
Stock Name	Bank of Tianjin
Stock Code	1578

1.2 Contact Persons and Contact Details

Board Secretary	ZHANG Furong
Joint Company Secretaries	ZHANG Furong, NGAI Wai Fung
Registered Address and Headquarter Address	No. 15 Youyi Road, Hexi District, Tianjin, China
Principal Place of Business in Hong Kong	40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong
Telephone	86-22-2840 5262
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2. SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

	For the six months ended June 30,		
	2018	2017	**Rate of change(%)**
	(Amounts in thousands of RMB, unless otherwise stated)		
OPERATING RESULTS			
Interest income	**12,703,261**	13,280,294	(4.3)
Interest expense	**(10,737,324)**	(8,981,017)	19.6
NET INTEREST INCOME	**1,965,937**	4,299,277	(54.3)
Investment income	**2,776,471**	–	–
Fee and commission income	**951,523**	1,080,816	(12.0)
Fee and commission expense	**(47,719)**	(30,124)	58.4
NET FEE AND COMMISSION INCOME	**903,804**	1,050,692	(14.0)
Net trading gains/(losses)	**294,359**	(74,190)	(496.8)
Net gains arising from derecognition of financial assets at amortised cost	**36,202**	14,136	156.1
Other income, gains or losses	**(15,874)**	1,158	(1,470.8)
OPERATING INCOME	**5,960,899**	5,291,073	12.7
Operating expenses	**(1,572,750)**	(1,398,532)	12.5
Impairment losses	**(748,950)**	(568,617)	31.7
Share of results of associated companies	**(2,634)**	(11,968)	(78.0)
PROFIT BEFORE TAX	**3,636,565**	3,311,956	9.8
Income tax expense	**(771,572)**	(690,402)	11.8
PROFIT FOR THE PERIOD	**2,864,993**	2,621,554	9.3
Profit for the year attributable to:			
Equity holders of the Bank	**2,840,472**	2,615,997	8.6
Non-controlling interests	**24,521**	5,557	341.3
	2,864,993	2,621,554	9.3
Earnings per share attributable to equity holders of the Bank (Expressed in RMB Yuan per share)			
– Basic	**0.47**	0.43	9.3

	As of June 30, 2018	As of December 31, 2017	Rate of change(%)
	(Amounts in thousands of RMB, unless otherwise stated)		
MAJOR INDICATORS OF ASSETS/LIABILITIES			
Total assets	**650,003,391**	701,913,589	(7.4)
Of which: loans and advances to customers	**234,115,433**	241,637,249	(3.1)
Total liabilities	**604,007,119**	657,157,727	(8.1)
Of which: deposits from customers	**336,328,832**	357,857,635	(6.0)
Share capital	**6,070,552**	6,070,552	–
Equity attributable to equity holders of the Bank	**45,299,342**	44,083,453	2.8
Total equity	**45,996,272**	44,755,862	2.8

	For the six months ended June 30, 2018	2017	Change
PROFITABILITY INDICATORS (%)			
Return on average total assets[(1)]	**0.84**	0.80	0.04
Return on average equity[(2)]	**12.62**	12.38	0.24
Net interest spread[(3)]	**1.12**	0.90	0.22
Net interest margin[(4)]	**1.44**	1.31	0.13
Net fee and commission income to operating income	**15.16**	19.86	(4.70)
Cost-to-income ratio[(5)]	**25.37**	25.50	(0.13)

	As of June 30, 2018	As of December 31, 2017	Change
ASSET QUALITY INDICATORS (%)			
Non-performing loan ratio[(6)]	**1.62**	1.50	0.12
Allowance coverage ratio[(7)]	**239.58**	193.81	45.77
Allowance to gross loan ratio[(8)]	**3.87**	2.91	0.96

	As of June 30, 2018	As of December 31, 2017	Change
CAPITAL ADEQUACY RATIO INDICATORS (%)			
Calculated based on Capital Administrative Measures			
Core tier-one capital adequacy ratio[9]	**9.36**	8.64	0.72
Tier-one capital adequacy ratio[10]	**9.37**	8.65	0.72
Capital adequacy ratio[11]	**14.06**	10.74	3.32
Total equity to total assets	**7.08**	6.38	0.70
OTHER INDICATORS (%)			
Loan-to-deposit ratio[12]	**72.45**	69.56	2.89
Liquidity ratio[13]	**46.30**	35.41	10.89
Percentage of loans to the single largest customer[14]	**5.12**	6.36	(1.24)
Percentage of loans to the top ten customers[15]	**29.96**	41.55	(11.59)

Notes:

(1) Calculated by dividing net profit for the period by average balance of total assets at the beginning and the end of the period.

(2) Calculated by dividing net profit for the period by average balance of total equity at the beginning and the end of the period.

(3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(4) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.

(5) Calculated by dividing total operating expenses (excluding taxes and surcharges) by total operating income.

(6) Calculated by dividing total non-performing loans by gross loans.

(7) Calculated by dividing total allowance for impairment losses on loans to customers by total non-performing loans.

(8) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans to customers.

(9) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets.

(10) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets.

(11) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.

(12) Loan-to-deposit ratio as of December 31, 2017 and June 30, 2018 were calculated according to the Notice on Adjusting the Calculation of Loan-to-Deposit Ratio for Commercial Banks (《中國銀監會關於調整商業銀行存貸比計算口徑的通知》).

(13) Liquidity ratio is calculated in accordance with the formula promulgated by the China Banking Regulatory Commission.

(14) Calculated by dividing total loans to the single largest customer by net capital.

(15) Calculated by dividing total loans to the top ten customers by net capital.

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment and Prospects

In the first half of 2018, the PRC economy kept growing amid stability on the whole. Major indexes subject to macro control stayed within the reasonable range, the economic structure kept improving and upgrading, initial results were achieved in preventing and mitigating financial risks, and new growth drivers continued to increase significantly. In this context, the economy maintained advancement amid stability on the whole, presenting a good shape of stable price, increasing income and improving supply pattern. The stability, coordination and sustainability of economic growth have been enhanced slightly.

In the second half of 2018, macro control policies will experience steady adjustments, pointing to an unchanged stance in strictly regulating the financial industry. Supporting fiscal policies will lend more support, and monetary policies will be fine-tuned on a relatively loose basis to continuously provide liquidity support for the financial system, so as to keep economic movement at a reasonable range. Meanwhile, the external environment facing the Bank tends to be diverse and uncertain due to insufficient growth drivers of overall economy in areas where the Bank's institutions are located, as well as the changed international trade pattern as a result of Sino-US trade war. In response to challenges and opportunities, we will adhere to the "dual track" strategy of transformation and innovation, create our core competitiveness and enhance our profitability by closely following central policies, promoting regional development, focusing on "serving real economy, preventing and controlling financial risks, deepening financial reform" and capitalizing on excellent opportunities arising from the advancement of synergistic development strategy of the Beijing-Tianjin-Hebei region and basically completed planning framework for Xiongan New Area in Hebei.

3.2 Corporate Strategies

Our strategic vision targets to position the Bank in "six dimensions": 1. to be a mainstream bank in Beijing-Tianjin-Hebei region. Aiming at the Beijing-Tianjin-Hebei region and supporting the development of the real economy, we are to make important contributions to the development of Beijing-Tianjin-Hebei region; 2. to be a dual-track bank. Promoting traditional business transformation centered on customers and creating a comprehensive digital layout shepherded by technology and data, we are to become a dual-track bank for transformation and innovation; 3. to be a value-driven bank. Transforming from the "pursuit of quantity" to the "pursuit of quality", we are dedicated to enhance efficiency and quality to bring values for the shareholders; 4. to be a bank proud of compliance and integrity, we are to perfectly comply with all regulatory requirements and serve the society with integrity; 5. to be a bank offering superior experience. Promoting digital transformation of end-to-end customer journeys, we are to become a digital bank with first-class customer experience; 6. to be a bank that cares for employees. Treasuring talents, strengthening employees' sense of belonging, and providing employees with the best development opportunities, we are committed to devoting more attention to employees.

In the first half of 2018, as guided by the dual-track strategy of "transformation + innovation", the Bank secured satisfactory business results by actively changing its development philosophy and adjusting its development mode. The Bank stepped up its support for key projects relating to synergistic development of the Beijing-Tianjin-Hebei region and national emerging industries in respect of wholesale business and allocated more resources to the real economy. The money market business returned to the origin. In response to stringent regulation, deleveraging and credit contraction, the Bank actively and timely made transformation and adjustment in interbank and asset management business, with an effort to make profits while ensuring compliant operation. The Bank expanded channels for retail business. It launched online batch personal loan business, built new modes for acquiring customers in batches and intellectualized traditional outlets to achieve supernormal development. Meanwhile, the Bank further consolidated the foundation of future development by continuously improving its operation and management organization structure, issuing RMB10 billion of tier-two capital bonds to replenish capital, enhancing financial technology cooperation and focusing on independent development.

The Bank will continue to achieve its strategic vision and development goals through the dual-track strategy of "transformation + innovation" in the second half of 2018. In respect of transformation, the Bank will promote traditional business transformation inside out based on customers. Regarding innovation, the Bank will fully implement digital layout as guided by technology and data. In addition, by capitalizing on the upgrading of "Ten Major Projects (Version 1.0)" to "Ten Major Projects (Version 2.0)", the Bank will, based on "Three Major Managements", "Three Major Constructions", and "Four Major Drivers and Safeguard", further build a "strong head office" to boost the Bank's achieving its strategic visions and development goals.

3.3 Analysis of the Income Statement

	For the six months ended June 30,		
	2018	2017	**Rate of change(%)**
	(Amounts in thousands of RMB, unless otherwise stated)		
Interest income	**12,703,261**	13,280,294	(4.3)
Interest expense	**(10,737,324)**	(8,981,017)	19.6
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NET FEE AND COMMISSION INCOME	**903,804**	1,050,692	(14.0)
Net trading gains/(losses)	**294,359**	(74,190)	(496.8)
Net gains arising from derecognition of financial assets at amortised cost	**36,202**	14,136	156.1
Other income, gains or losses	**(15,874)**	1,158	(1,470.8)
OPERATING INCOME	**5,960,899**	5,291,073	12.7
Operating expenses	**(1,572,750)**	(1,398,532)	12.5
Impairment losses	**(748,950)**	(568,617)	31.7
Share of results of associated companies	**(2,634)**	(11,968)	(78.0)
PROFIT BEFORE TAX	**3,636,565**	3,311,956	9.8
Income tax expense	**(771,572)**	(690,402)	11.8
PROFIT FOR THE PERIOD	**2,864,993**	2,621,554	9.3

For the six months ended June 30, 2018, the Bank's profit before tax increased by 9.8% to RMB3,636.6 million from RMB3,312.0 million for the six months ended June 30, 2017 and the profit for the same period increased by 9.3% to RMB2,865.0 million from RMB2,621.6 million for the six months ended June 30, 2017.

3.3.1 Net Interest Income[(1)], Net Interest Spread and Net Interest Margin

For the six months ended June 30, 2018, the Bank's net interest income increased by 10.3% to RMB4,742.4 million from RMB4,299.3 million for the six months ended June 30, 2017. Our net interest spread increased from 0.90% for the six months ended June 30, 2017 to 1.12% for the six months ended June 30, 2018, primarily due to the fact that our average yield on interest-earning assets increased by 62 basis points and the average cost of interest-bearing liabilities increased by 40 basis points. Our net interest margin increased from 1.31% for the six months ended June 30, 2017 to 1.44% for the six months ended June 30, 2018, because our net interest income increased by 10.3% for the six months ended June 30, 2018, while the average balance of our interest-earning assets increased by 1.2% for the six months ended June 30, 2018.

(1) consists of investment income from financial assets at FVTPL.

The following tables set forth, for the six months ended June 30, 2017 and 2018, the average balance of our interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities.

	For the six months ended June 30,					
	2018			2017		
	Average balance	**Interest income/ expense**	**Average yield/cost (%)**	Average balance	Interest income/ expense	Average yield/cost (%)
	(Amounts in millions of RMB, except percentages)					
Interest-earning Assets						
Loans and advances to customers	**246,965.6**	**6,240.4**	**5.05**	216,892.5	5,314.1	4.90
Investment securities and other financial assets, including	**328,651.8**	**8,239.0**	**5.01**	329,042.2	6,544.3	3.98
– Trust beneficiary rights, wealth management products and asset management plans	**195,205.5**	**6,017.4**	**6.17**	190,587.1	4,653.1	4.88
– Debt securities and fund investment	**133,446.3**	**2,221.6**	**3.33**	138,455.1	1,891.2	2.73
Amounts due from banks and other financial institutions[1]	**24,285.2**	**459.8**	**3.79**	36,031.6	690.6	3.83
Deposits with banks and other financial institutions	**7,030.0**	**127.2**	**3.62**	16,581.1	312.1	3.76
Balances with central bank	**54,745.2**	**413.3**	**1.51**	55,380.8	419.2	1.51
Total interest-earning assets	**661,677.8**	**15,479.7**	**4.68**	653,928.2	13,280.3	4.06
Allowance for impairment losses	**(10,879.9)**			(8,062.1)		
Non-interest earning assets[2]	**13,197.7**			9,388.3		
Total assets	**663,995.6**	**15,479.7**	**4.66**	655,254.4	13,280.3	4.05
Interest-bearing Liabilities						
Deposits from customers	**332,010.7**	**4,935.2**	**2.97**	333,716.7	4,382.9	2.63
Deposits from banks and other financial institutions	**63,645.3**	**1,493.0**	**4.69**	94,697.5	2,025.6	4.28
Amounts due to banks and other financial institutions[3]	**54,540.3**	**826.2**	**3.03**	74,628.4	1,205.0	3.23
Debt securities issued	**141,956.1**	**3,317.5**	**4.67**	64,678.6	1,361.1	4.21
Borrowings from central bank	**10,337.5**	**165.4**	**3.20**	400.0	6.4	3.20
Total interest-bearing liabilities	**602,489.9**	**10,737.3**	**3.56**	568,121.2	8,981.0	3.16
Non-interest-bearing liabilities[4]	**31,038.3**			44,446.5		
Total liabilities	**633,528.2**	**10,737.3**	**3.39**	612,567.7	8,981.0	2.93
Net interest income		**4,742.4**			4,299.3	
Net interest spread[5]			**1.12**			0.90
Net interest margin[6]			**1.44**			1.31

Notes:

(1) Consists of financial assets held under resale agreements and placements with banks and other financial institutions.

(2) Consists of cash, interest receivable, long-term equity investments, fixed assets, intangible assets, other receivables, repossessed assets and deferred income tax assets.

(3) Consists of financial assets sold under repurchase agreements and placements from banks and other financial institutions.

(4) Consists of interest payable, taxes payable, other payables, accrued liabilities, accrued staff salaries and dividends payable.

(5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.

(6) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.

3.3.2 Interest Income

For the six months ended June 30, 2018, our interest income increased by 16.6% to RMB15,479.7 million from RMB13,280.3 million for the six months ended June 30, 2017, which was primarily attributable to the increases in the average balance of our loans and advances to customers, resulting in a 1.2% increase in average balance of interest-earning assets from RMB653,928.2 million for the six months ended June 30, 2017 to RMB661,677.8 million for the six months ended June 30, 2018, and the average yield of our interest-earning assets increased by 62 basis points from 4.06% for the six months ended June 30, 2017 to 4.68% for the six months ended June 30, 2018.

Interest income from loans and advances to customers

For the six months ended June 30, 2018, interest income from loans and advances to customers increased by 17.4% from RMB5,314.1 million for the six months ended June 30, 2017 to RMB6,240.4 million for the six months ended June 30, 2018, primarily due to a 13.9% increase in average balance of loans and advances to customers from RMB216,892.5 million for the six months ended June 30, 2017 to RMB246,965.6 million for the six months ended June 30, 2018, reflecting our continued efforts to increase our extending of loans to support the development of real economies, and the average yield of our loans and advances to customers from 4.90% for the six months ended June 30, 2017 increased by 15 basis points to 5.05% for the six months ended June 30, 2018.

Interest income from trust beneficiary rights, wealth management products and asset management plans

For the six months ended June 30, 2018, interest income from trust beneficiary rights, wealth management products and asset management plans increased by 29.3% from RMB4,653.1 million for the six months ended June 30, 2017 to RMB6,017.4 million for the six months ended June 30, 2018, primarily due to the fact that the average yield of our trust beneficiary rights, wealth management products and asset management plans increased by 129 basis points from 4.88% for the six months ended June 30, 2017 to 6.17% for the six months ended June 30, 2018. The increase in average yield of trust beneficiary rights, wealth management products and asset management plans was primarily due to the Bank's active adjustment of the asset structure by reducing investment in low-efficiency assets and increasing investment in high-yield assets.

Interest income from debt securities and fund investment

Interest income from debt securities and fund investment increased by 17.5% from RMB1,891.2 million for the six months ended June 30, 2017 to RMB2,221.6 million for the six months ended June 30, 2018, principally due to the fact that the average yield of our debt securities and fund investment increased by 60 basis points from 2.73% for the six months ended June 30, 2017 to 3.33% for the six months ended June 30, 2018. The increase in the average yield of our debt securities and fund investment was primarily due to the adjustment of variety and structure of debt securities investment to obtain higher returns.

Interest income from amounts due from banks and other financial institutions

Interest income from amounts due from banks and other financial institutions decreased by 33.4% from RMB690.6 million for the six months ended June 30, 2017 to RMB459.8 million for the six months ended June 30, 2018, primarily due to the facts that we complied with the regulatory requirements and took the initiative to downsize our assets and the average balance of our amounts due from banks and other financial institutions decreased by 32.6% from RMB36,031.6 million for the six months ended June 30, 2017 to RMB24,285.2 million for the six months ended June 30, 2018.

Interest income from deposits with banks and other financial institutions

Interest income from deposits with banks and other financial institutions decreased by 59.2% from RMB312.1 million for the six months ended June 30, 2017 to RMB127.2 million for the six months ended June 30, 2018, primarily due to a 57.6% decrease in the average balance of deposits with banks and other financial institutions from RMB16,581.1 million for the six months ended June 30, 2017 to RMB7,030.0 million for the six months ended June 30, 2018. The decrease in the average balance of our deposits with banks and other financial institutions was due to our adjustment of overall assets portfolio to allocate our fund resources to the higher-yielding assets while meeting our liquidity needs.

Interest income from balances with central bank

Interest income from balances with central bank decreased by 1.4% from RMB419.2 million for the six months ended June 30, 2017 to RMB413.3 million for the six months ended June 30, 2018, primarily due to a 1.1% decrease in the average balance of our balances with central bank from RMB55,380.8 million for the six months ended June 30, 2017 to RMB54,745.2 million for the six months ended June 30, 2018.

3.3.3 Interest Expense

Our interest expense increased by 19.6% from RMB8,981.0 million for the six months ended June 30, 2017 to RMB10,737.3 million for the six months ended June 30, 2018, primarily due to an increase of 40 basis points in the average cost of our interest-bearing liabilities from 3.16% for the six months ended June 30, 2017 to 3.56% for the six months ended June 30, 2018, and an increase of 6.0% in the average balance of the interest-bearing liabilities from RMB568,121.2 million for the six months ended June 30, 2017 to RMB602,489.9 million for the six months ended June 30, 2018. The increase in the average cost of our interest-bearing liabilities primarily reflected an increase in the average cost of our deposits from customers, deposits from banks and other financial institutions, and debt securities issued. The increase in the average balance of our interest-bearing liabilities was primarily due to an increase in the average balances of our debt securities issued and borrowings from central bank.

Interest expense on deposits from customers

Our interest expense on deposits from customers increased by 12.6% from RMB4,382.9 million for the six months ended June 30, 2017 to RMB4,935.2 million for the six months ended June 30, 2018, primarily due to an increase of 34 basis points in the average cost of deposits from customers from 2.63% for the six months ended June 30, 2017 to 2.97% for the six months ended June 30, 2018, partially offset by a 0.5% decrease in the total deposits from customers from RMB333,716.7 million for the six months ended June 30, 2017 to RMB332,010.7 million for the six months ended June 30, 2018. The average balance and average cost of the deposits from customers both remained relatively stable.

Interest expense on deposits from banks and other financial institutions

Our interest expense on deposits from banks and other financial institutions decreased by 26.3% from RMB2,025.6 million for the six months ended June 30, 2017 to RMB1,493.0 million for the six months ended June 30, 2018, primarily due to a 32.8% decrease in the average balance of the underlying liabilities from RMB94,697.5 million for the six months ended June 30, 2017 to RMB63,645.3 million for the six months ended June 30, 2018, partially offset by an increase of 41 basis points in the cost of the relevant liabilities from 4.28% for the six months ended June 30, 2017 to 4.69% for the six months ended June 30, 2018. The decrease in the average balance of our deposits from banks and other financial institutions primarily reflected the decrease in the total volume of such business. The increase in the average cost of our deposits from banks and other financial institutions primarily due to the increase in interest rate resulting from the tightened liquidity of the RMB market in the second half of 2017 and the first quarter of 2018 and the Bank's active adjustment of its liability structure by increasing absorption of medium- and long-term stable liabilities to improve the liquidity indicator.

Interest expense on amounts due to banks and other financial institutions

Our interest expense on amounts due to banks and other financial institutions decreased by 31.4% from RMB1,205.0 million for the six months ended June 30, 2017 to RMB826.2 million for the six months ended June 30, 2018, primarily due to a 26.9% decrease of the average balance of our amounts due to banks and other financial institutions from RMB74,628.4 million for the six months ended June 30, 2017 to RMB54,540.3 million for the six months ended June 30, 2018, accompanied by 20 basis points decrease of the average cost of our amounts due to banks and other financial institutions from 3.23% for the six months ended June 30, 2017 to 3.03% for the six months ended June 30, 2018. The decrease in the average balance of our amounts due to banks and other financial institutions was primarily due to the fact that we obtained funds via other sources to meet our liquidity needs. The decrease in the average cost of our amounts due to banks and other financial institutions was primarily due to the fact that the financing costs of interbank borrowings and assets sold under repurchase agreements were effectively reduced by innovating and developing liability sources.

Interest expense on debt securities issued

Our interest expense on debt securities issued increased by 143.7% from RMB1,361.1 million for the six months ended June 30, 2017 to RMB3,317.5 million for the six months ended June 30, 2018, primarily due to a 119.5% increase in the average balance of our debt securities issued from RMB64,678.6 million for the six months ended June 30, 2017 to RMB141,956.1 million for the six months ended June 30, 2018, and 46 basis points increase in the average cost of our debt securities issued from 4.21% for the six months ended June 30, 2017 to 4.67% for the six months ended June 30, 2018. The increase in the average balance of our debt securities issued was primarily due to the increase in the issuance of our interbank negotiable certificates of deposit and issuance of tier-two capital bonds and financial bonds. The increase in the average cost of our debt securities issued was primarily due to the increase in interest rate resulting from the tightened liquidity of the RMB market in the second half of 2017 and the first quarter of 2018 and the Bank's active adjustment of its liability structure by increasing absorption of medium- and long-term stable liabilities to improve the liquidity indicator.

Interest expense on borrowings from central bank

Our interest expense on borrowings from central bank increased by 2,484.4% from RMB6.4 million for the six months ended June 30, 2017 to RMB165.4 million for the six months ended June 30, 2018, primarily due to a 2,484.4% increase of the average balance of borrowings from central bank from RMB400.0 million for the six months ended June 30, 2017 to RMB10,337.5 million for the six months ended June 30, 2018.

3.3.4 Non-interest Income

Net fee and commission income

The following table sets forth the principal components of our net fee and commission income for the six months ended June 30, 2017 and 2018.

	For the six months ended June 30,			
	2018	2017	**Change in amount**	**Rate of Change (%)**
	(Amounts in millions of RMB, except percentages)			
Fee and commission income				
Settlement and clearing fees	**91.1**	84.0	7.1	8.5
Wealth management service fees	**526.3**	672.4	(146.1)	(21.7)
Acceptance and guarantee commitment fees	**36.5**	100.9	(64.4)	(63.8)
Agency commissions and fiduciary services fees	**158.7**	100.4	58.3	58.1
Bank card fees	**18.3**	12.0	6.3	52.5
Consultancy fees	**118.0**	108.2	9.8	9.1
Others	**2.6**	2.9	(0.3)	(10.3)
Subtotal	**951.5**	1,080.8	(129.3)	(12.0)
Fee and commission expenses	**(47.7)**	(30.1)	(17.6)	58.4
Net fee and commission income	**903.8**	1,050.7	(146.9)	(14.0)

Our net fee and commission income decreased by 14.0% from RMB1,050.7 million for the six months ended June 30, 2017 to RMB903.8 million for the six months ended June 30, 2018. The decrease was primarily due to the decrease in our wealth management service fees and acceptance and guarantee commitment fees. For the six months ended June 30, 2018, wealth management service fees amounted to RMB526.3 million, compared to RMB672.4 million for the six months ended June 30, 2017.

Fee and commission expenses

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee- and commission-based services that can be directly allocated to the provision of such services. Our fee and commission expenses increased by 58.4% from RMB30.1 million for the six months ended June 30, 2017 to RMB47.7 million for the six months ended June 30, 2018.

3.3.5 Operating Expenses

The following table sets forth, for the six months ended June 30, 2017 and 2018, the principal components of our operating expenses.

	For the six months ended June 30,			
	2018	2017	**Change in amount**	**Rate of change (%)**
	(Amounts in millions of RMB, except percentages)			
Operating expenses				
Staff costs	**935.1**	932.0	3.1	0.3
Tax and surcharges	**60.3**	49.2	11.1	22.6
Other general and administrative expenses	**140.7**	97.7	43.0	44.0
Office expenses	**101.1**	58.1	43.0	74.0
Rental and property management expenses	**212.6**	148.6	64.0	43.1
Depreciation and amortization	**123.0**	112.8	10.2	9.0
Others	**–**	0.1	(0.1)	(100)
Total operating expenses	**1,572.8**	1,398.5	174.3	12.5
Cost-to-income ratio[(1)]	**25.4%**	25.5%	–	(0.1)

Notes:

(1) Calculated by dividing total operating expenses, excluding taxes and surcharges, by total operating income.

Our operating expenses increased by 12.5% from RMB1,398.5 million for the six months ended June 30, 2017 to RMB1,572.8 million for the six months ended June 30, 2018. The increase was primarily due to the increase in our rental and property management expenses. Our cost-to-income ratio (excluding tax and surcharges) was 25.5% and 25.4% for the six months ended June 30, 2017 and 2018, respectively.

Staff costs

Staff costs are the largest component of our operating expenses, which amounted to RMB935.1 million for the six months ended June 30, 2018, representing an increase of 0.3% from RMB932.0 million for the six months ended June 30, 2017. The following table sets forth the major components of staff costs for the periods indicated.

	For the six months ended June 30,			
	2018	2017	**Change in amount**	**Rate of change (%)**
	(Amounts in millions of RMB, except percentages)			
Salaries, bonuses and allowances	**661.6**	701.6	**(40.0)**	**(5.7)**
Social insurance	**129.5**	98.5	**31.0**	**31.5**
Housing funds	**56.9**	44.5	**12.4**	**27.9**
Staff welfare	**24.8**	11.3	**13.5**	**119.5**
Labor union fees and staff education expenses	**17.0**	15.2	**1.8**	**11.8**
Contribution to annuity funds	**45.3**	60.9	**(15.6)**	**(25.6)**
Total	**935.1**	932.0	**3.1**	**0.3**

Tax and surcharges

The tax and surcharges amounted to RMB60.3 million for the six months ended June 30, 2018, representing an increase of 22.6% from RMB49.2 million for the six months ended June 30, 2017. The increase in tax and surcharges was primarily due to the significant increase in the value-added tax as compared with last year, resulting in increase of surcharges.

Office expenses and rental and property management expenses

The office expenses and rental and property management expenses amounted to RMB313.7 million for the six months ended June 30, 2018, representing an increase of 51.8% from RMB206.7 million for the six months ended June 30, 2017.

Other general and administrative expenses

Our other general and administrative expenses amounted to RMB140.7 million for the six months ended June 30, 2018, representing an increase of 44.0% from RMB97.7 million for the six months ended June 30, 2017.

Depreciation and amortization

Depreciation and amortization amounted to RMB123.0 million for the six months ended June 30, 2018, representing an increase of 9.0% from RMB112.8 million for the six months ended June 30, 2017.

3.3.6 Impairment Losses

The following table sets forth the principal components of our impairment losses for the periods indicated.

	For the six months ended June 30,			
	2018	2017	**Change in amount**	**Rate of change (%)**
	(Amounts in millions of RMB, except percentages)			
Loans and advances to customers	**1,449.0**	472.5	**976.5**	**206.7**
Off-balance sheet credit commitments	**(125.1)**	(80.8)	**(44.3)**	**54.8**
Investments classified as receivables	**N/A**	216.2	**–**	**–**
Debt instrument at amortized cost	**(578.4)**	N/A	**–**	**–**
Financial assets at fair value through other comprehensive income	**7.0**	–	**7.0**	**–**
Deposits with banks	**(0.8)**	–	**(0.8)**	**–**
Placements with banks	**(2.2)**	–	**(2.2)**	**–**
Financial assets held under resale agreements	**(0.6)**	(39.3)	**38.7**	**(98.5)**
Total	**748.9**	568.6	**180.3**	**31.7**

Our impairment losses for the six months ended June 30, 2018 were RMB748.9 million, representing an increase of 31.7% from RMB568.6 million for the six months ended June 30, 2017, primarily due to our impairment losses on loans and advances to customers increasing by 206.7% from RMB472.5 million for the six months ended June 30, 2017 to RMB1,449.0 million for the six months ended June 30, 2018, reflecting an increase in our non-performing loans.

3.3.7 Income Tax Expenses

The following table sets forth the principal components of our income tax expenses for the periods indicated.

	For the six months ended June 30,			
	2018	2017	**Change in amount**	**Rate of change (%)**
	(Amounts in millions of RMB, except percentages)			
Profit before tax	**3,636.6**	3,312.0	**324.6**	**9.8**
Tax calculated at applicable statutory tax rate of 25%	**909.2**	828.0	**81.2**	**9.8**
Underprovision of tax in prior years	**12.0**	3.7	**8.3**	**224.3**
Tax effect of expense not deductible for tax purpose	**0.4**	15.2	**(14.8)**	**(97.4)**
Tax effect of income not taxable for tax purpose[1]	**(150.0)**	(156.5)	**6.5**	**(4.2)**
Income tax expense	**771.6**	690.4	**81.2**	**11.8**

Note:

(1) The income not taxable for tax purpose mainly represents interest income arising from government bonds, which is income tax free in accordance with the PRC tax regulations.

Our income tax for the six months ended June 30, 2018 amounted to RMB771.6 million, representing a 11.8% increase from RMB690.4 million for the six months ended June 30, 2017, which was generally consistent with the increase in our profit before tax.

3.4 ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

3.4.1 Assets

The following table sets forth, as of the dates indicated, the components of our total assets.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
ASSETS				
Gross loans and advances to customers	**243,540.3**	**37.5**	248,880.7	35.4
Allowance for impairment losses	**(9,424.9)**	**(1.4)**	(7,243.5)	(1.0)
Loans and advances to customers, net	**234,115.4**	**36.1**	241,637.2	34.4
Investment securities and other financial assets, net	**320,754.9**	**49.2**	363,452.6	51.8
Financial assets held under resale agreements	**3,900.0**	**0.6**	9,356.8	1.3
Cash and deposits with central bank	**57,891.9**	**8.9**	57,372.5	8.2
Deposits with banks and other financial institutions	**3,896.2**	**0.6**	8,003.9	1.1
Placements with banks and other financial institutions	**17,283.6**	**2.7**	12,295.0	1.8
Derivative financial assets	**109.2**	**0.0**	0.0	0.0
Other assets[1]	**12,052.2**	**1.9**	9,795.6	1.4
TOTAL ASSETS	**650,003.4**	**100.0**	701,913.6	100.0

Note:

(1) Consists primarily of interest receivable, property and equipment, deferred tax assets, long-term deferred expenses, intangible assets and other receivables.

As of June 30, 2018, our total assets amounted to RMB650,003.4 million, representing a decrease of 7.4% compared to RMB701,913.6 million as of December 31, 2017. The decrease was mainly due to the decrease in our loans and advances to customers and investment securities and other financial assets.

Loans and advances to customers

The following table sets forth, as of the dates indicated, a breakdown of our loans by business line.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Corporate loans	**186,587.6**	**76.6**	202,547.2	81.4
Personal loans	**38,101.0**	**15.6**	34,379.2	13.8
Discounted bills	**8,908.3**	**3.7**	3,242.5	1.3
Finance lease receivables	**9,943.4**	**4.1**	8,711.8	3.5
Total	**243,540.3**	**100.0**	248,880.7	100.0

Corporate loans

Our corporate loans amounted to RMB186,587.6 million as of June 30, 2018, representing a decrease of 7.9% compared to RMB202,547.2 million as of December 31, 2017.

The following table sets forth a breakdown of our corporate loans by contract maturity as of the dates indicated.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Short-term loans (one year or less)	**76,927.8**	**41.2**	102,432.5	50.6
Medium- and long-term loans (over one year)	**109,659.8**	**58.8**	100,114.7	49.4
Total corporate loans	**186,587.6**	**100.0**	202,547.2	100.0

Short-term loans as a percentage of our corporate loan portfolio decreased from 50.6% as of December 31, 2017 to 41.2% as of June 30, 2018 and our medium- and long-term loans as a percentage of our corporate loan portfolio increased from 49.4% as of December 31, 2017 to 58.8% as of June 30, 2018. The changes in the above percentages of our corporate loan portfolio were primarily caused by the fact that certain short-term loans came to maturity and our decision to optimize our loan maturity structure.

The following table sets forth, as of the dates indicated, the distribution of our corporate loans by product type.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Working capital loans	**120,506.6**	**64.5**	141,073.3	69.6
Fixed assets loans	**54,049.0**	**29.0**	50,175.1	24.8
Trade finance	**5,583.5**	**3.0**	5,300.4	2.6
Others[(1)]	**6,448.5**	**3.5**	5,998.4	3.0
Total corporate loans	**186,587.6**	**100.0**	202,547.2	100.0

Note:

(1) Consist primarily of advances under bank acceptance and letters of credit issued by the Bank and corporate overdraft.

Our working capital loans amounted to RMB120,506.6 million as of June 30, 2018, representing a decrease of 14.6% compared to RMB141,073.3 million as of December 31, 2017, mainly due to the maturity of certain working capital loans.

Our fixed assets loans amounted to RMB54,049.0 million as of June 30, 2018, representing an increase of 7.7% compared to RMB50,175.1 million as of December 31, 2017, which remained relatively stable.

Our trade finance amounted to RMB5,300.4 million and RMB5,583.5 million as of December 31, 2017 and June 30, 2018. Our other corporate loans amounted to RMB5,998.4 million and RMB6,448.5 million as of December 31, 2017 and June 30, 2018.

Personal loans

Our personal loans amounted to RMB38,101.0 million as of June 30, 2018, representing an increase of 10.8% compared to RMB34,379.2 million as of December 31, 2017. This increase was mainly attributable to the Bank actively adjusted its business strategy and carried out Internet-based personal consumption loan business in an all-round manner. By establishing the online loan system, the Bank cooperated with Internet fintech companies to develop a brand-new operating model for personal consumption loan business featuring online customer acquisition, online examination and approval and online loan extension, which improved the Bank's capability to acquire customers and control risks and promoted the development of the Bank's retail assets business while enhancing customer experience and satisfaction. As of June 30, 2018, the Bank has cooperated with five financial technology companies including jinrong.360.cn, Xinwang Bank, Gome Finance, Ant Financial and WeBank in personal consumption loan business, with RMB7,703 million of online loans extended and RMB4,438 million of balance remained.

The following table sets forth a breakdown of our personal loans by product type as of the dates indicated.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Personal consumption loans	**11,300.9**	**29.6**	8,793.0	25.6
Residential mortgage loans	**22,656.7**	**59.5**	21,286.2	61.9
Personal business loans	**3,542.3**	**9.3**	3,815.8	11.1
Credit card overdrafts	**601.1**	**1.6**	484.2	1.4
Total personal loans	**38,101.0**	**100.0**	34,379.2	100.0

Our personal consumption loans amounted to RMB11,300.9 million as of June 30, 2018, representing an increase of 28.5% compared to RMB8,793.0 million as of December 31, 2017.

Our residential mortgage loans amounted to RMB22,656.7 million as of June 30, 2018, representing an increase of 6.4% compared to RMB21,286.2 million as of December 31, 2017. The increase in our residential mortgage loans was primarily due to (i) our efforts to grow our residential mortgage loan business to meet the various needs of our retail customers, and (ii) our increased marketing efforts on residential mortgage loans as our response to the PRC government's sound policy on the residential mortgage loans.

Our personal business loans amounted to RMB3,542.3 million as of June 30, 2018, representing a decrease of 7.2% compared to RMB3,815.8 million as of December 31, 2017. The decrease in our personal business loans was primarily due to (i) the maturity of certain of our personal business loans, and (ii) the decrease in our lending to individual businesses given their deteriorated repayment abilities during the slowdown in the PRC economy.

Our credit card overdrafts amounted to RMB484.2 million and RMB601.1 million as of December 31, 2017 and June 30, 2018.

Discounted bills

Discounted bills represented an important component of our portfolio of loans and advances to customers. Our discounted bills increased by 174.7% to RMB8,908.3 million as of June 30, 2018 from RMB3,242.5 million as of December 31, 2017, primarily due to our decision to increase the business volume of discounted bills given the relatively higher market prices of discounted bills in the first half of 2018.

Finance lease receivables

As of June 30, 2018, we recorded finance lease receivables increased by 14.1% to RMB9,943.4 million from RMB8,711.8 million as of December 31, 2017, primarily due to the fact that the Bank's subsidiary Bank of Tianjin Financial Leasing Co., Ltd. was still under development in the first half of 2018, with its business expanding somewhat over last year.

Investment securities and other financial assets

As of June 30, 2018, the balance of our investment securities and other financial assets amounted to RMB320,754.9 million, representing a decrease of 11.7% compared to RMB363,452.6 million as of December 31, 2017. This decrease was mainly due to a decrease of our holding of wealth management products issued by other financial institutions and trust beneficiary rights.

The following table sets forth, as of December 31, 2017 and June 30, 2018, the components of our investment securities and other financial assets.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Debt securities				
Held-to-maturity debt securities	**N/A**	**N/A**	49,123.3	13.5
Available-for-sale debt securities	**N/A**	**N/A**	33,108.7	9.1
Debt securities held for trading	**N/A**	**N/A**	5,720.1	1.6
Debt securities classified as receivables	**N/A**	**N/A**	39,860.5	11.0
Debt securities measured at amortized cost	**76,591.8**	**24.0**	N/A	N/A
Debt securities at fair value through other comprehensive income	**51,665.6**	**16.1**	N/A	N/A
Debt securities at fair value through profit or loss	**8,772.0**	**2.7**	N/A	N/A
Allowance for impairment losses	**(197.9)**	**(0.1)**	(115.0)	(0.0)
Subtotal	**136,831.5**	**42.7**	127,697.6	35.2
Funds	**1,702.3**	**0.5**	3,103.6	0.9
Wealth management products issued by other financial institutions	**18,019.3**	**5.6**	67,924.6	18.7
Trust beneficiary rights and assets management plans, net				
Asset management plans	**96,319.9**	**30.0**	81,347.8	22.2
Trust beneficiary rights	**68,871.3**	**21.5**	84,937.5	23.4
Others	**33.3**	**0.0**	0.0	0.0
Allowance for impairment losses	**(1,081.3)**	**(0.3)**	(1,617.1)	(0.4)
Subtotal	**164,143.2**	**51.2**	164,668.2	45.2
Equity investments				
Equity investments at fair value through profit or loss	**58.6**	**0.0**	N/A	N/A
Available-for-sale equity investments	**N/A**	**N/A**	58.6	0.0
Subtotal	**58.6**	**0.0**	58.6	0.0
Total investment securities and other financial assets, net	**320,754.9**	**100.0**	363,452.6	100.0

Debt securities

The following table sets forth, as of December 31, 2017 and June 30, 2018, the components of our debt securities.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
PRC government bonds	**36,827.8**	**26.9**	39,417.5	30.9
Debt securities issued by PRC policy banks	**39,595.1**	**28.9**	39,149.4	30.6
Debt securities issued by PRC corporate issuers	**28,704.7**	**20.9**	22,065.5	17.3
Debt securities issued by PRC banks and other financial institutions	**6,697.5**	**4.9**	7,329.5	5.7
Asset-backed securities	**25,204.3**	**18.4**	19,850.7	15.5
Total	**137,029.4**	**100.0**	127,812.6	100.0

Our holding of debt securities issued by PRC governments decreased by 6.6% from RMB39,417.5 million as of December 31, 2017 to RMB36,827.8 million as of June 30, 2018, primarily due to our preference for other debt securities with relatively high returns.

Our holding of debt securities issued by PRC policy banks increased by 1.1% from RMB39,149.4 million as of December 31, 2017 to RMB39,595.1 million as of June 30, 2018, which was primarily because of our preference for their relatively high liquidity and relatively low risks.

Our holding of debt securities issued by PRC corporate issuers increased by 30.1% from RMB22,065.5 million as of December 31, 2017 to RMB28,704.7 million as of June 30, 2018, which was primarily because of our decision to achieve higher returns on investments whilst maintaining reasonable level of liquidity.

Our holding of debt securities issued by PRC banks and other financial institutions decreased by 8.6% from RMB7,329.5 million as of December 31, 2017 to RMB6,697.5 million as of June 30, 2018, which reflected our preference for other debt securities with relatively high liquidity.

Our holding of asset-backed securities increased by 27.0% from RMB19,850.7 million as of December 31, 2017 to RMB25,204.3 million as of June 30, 2018, which was primarily because of our intensified efforts for investment in high-rated standardized assets.

Distribution of investment securities and other financial assets by investment intention

The following table sets forth, as of December 31, 2017 and June 30, 2018, the distribution of our investment securities and other financial assets by our investment intention.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Investments classified as receivables	**N/A**	**N/A**	272,338.3	74.9
Held-to-maturity investments	**N/A**	**N/A**	49,123.3	13.5
Available-for-sale financial assets	**N/A**	**N/A**	36,270.9	10.0
Financial assets held for trading	**N/A**	**N/A**	5,720.1	1.6
Debt instruments measured at amortized cost	**176,628.4**	**55.1**	N/A	N/A
Debt instruments at fair value through other comprehensive income	**51,665.6**	**16.1**	N/A	N/A
Financial assets at fair value through profit or loss	**92,460.9**	**28.8**	N/A	N/A
Total	**320,754.9**	**100.0**	363,452.6	100.0

Financial assets held under resale agreements

The table below sets forth, as of December 31, 2017 and June 30, 2018, the distribution of our financial assets held under resale agreements by collateral type.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Analyzed by collateral type:				
Bills	**993.5**	**24.0**	993.5	10.4
Debt securities	**3,144.9**	**76.0**	8,600.2	89.6
Total amount	**4,138.4**	**100.0**	9,593.7	100.0
Allowance for impairment losses	**(238.4)**		(236.9)	
Net amount	**3,900.0**		9,356.8	

Our financial assets held under resale agreements amounted to RMB3,900.0 million as of June 30, 2018, representing a decrease of 58.3% compared to RMB9,356.8 million as of December 31, 2017, primarily due to the fact that our bills held under resale agreements and certain of our other financial assets held under resale agreements came to maturity.

Other components of our assets

Other components of our assets primarily consist of (i) cash and deposits with central bank, (ii) deposits with banks and other financial institutions, (iii) placements with banks and other financial institutions, and (iv) others.

Our cash and deposits with central bank amounted to RMB57,891.9 million as of June 30, 2018, representing an increase of 0.9% compared to RMB57,372.5 million as of December 31, 2017.

Deposits with banks and other financial institutions amounted to RMB3,896.2 million as of June 30, 2018, representing a decrease of 51.3% compared to RMB8,003.9 million as of December 31, 2017. This decrease was primarily due to our adjustment of overall assets portfolio to allocate our fund resources to the higher-yielding assets while meeting our liquidity needs.

Our placements with banks and other financial institutions amounted to RMB17,283.6 million as of June 30, 2018, representing an increase of 40.6% compared to RMB12,295.0 million as of December 31, 2017. This increase was primarily due to our adjustment of overall assets portfolio to allocate our fund resources to the higher- yielding assets while meeting our liquidity needs.

Our other assets consist primarily of interest receivable, property and equipment, deferred tax assets, intangible assets and other receivables. Our other assets increased by 23.0% from RMB9,795.6 million as of December 31, 2017 to RMB12,052.2 million as of June 30, 2018, primarily due to the increase of our interest receivables from RMB4,373.4 million as of December 31, 2017 to RMB5,710.8 million as of June 30, 2018, primarily resulting from the increase in interest receivable of investment securities and other financial assets.

3.4.2 Liabilities

The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Deposits from customers	**336,328.8**	**55.7**	357,857.6	54.5
Deposits from banks and other financial institutions	**26,023.8**	**4.3**	77,036.4	11.7
Debt securities issued	**150,585.0**	**24.9**	118,688.3	18.1
Financial assets sold under repurchase agreements	**35,368.0**	**5.9**	50,696.4	7.7
Placements from banks	**21,972.7**	**3.6**	22,719.4	3.4
Borrowings from central bank	**12,020.0**	**2.0**	7,505.0	1.1
Income tax payable	**642.8**	**0.1**	635.1	0.1
Other liabilities[(1)]	**21,066.0**	**3.5**	22,019.5	3.4
TOTAL LIABILITIES	**604,007.1**	**100.0**	657,157.7	100.0

Note:

(1) Consist primarily of interest payable, employee benefits payables, dividend payable, accrued liabilities and certain other liabilities.

As of June 30, 2018, our total liabilities were RMB604,007.1 million, representing a decrease of 8.1% compared to RMB657,157.7 million as of December 31, 2017.

Deposits from customers

As of June 30, 2018, our deposits from customers amounted to RMB336,328.8 million, representing a decrease of 6.0% compared to RMB357,857.6 million as of December 31, 2017. The decrease in our deposits from customers was primarily due to our decision to optimize our deposit structure, actively control cost and focus more on improving the quality of our deposit-taking business.

The following table sets forth, as of December 31, 2017 and June 30, 2018, our deposits from customers by product type and maturity profile of deposits.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Corporate deposits				
Demand	**166,387.6**	**49.5**	182,502.6	51.0
Time[(1)]	**88,447.6**	**26.3**	92,825.5	25.9
Subtotal	**254,835.2**	**75.8**	275,328.1	76.9
Personal deposits				
Demand	**17,454.0**	**5.2**	17,163.4	4.8
Time[(1)]	**47,554.7**	**14.1**	45,717.8	12.8
Subtotal	**65,008.7**	**19.3**	62,881.2	17.6
Others[(2)]	**16,484.9**	**4.9**	19,648.3	5.5
Total deposits from customers	**336,328.8**	**100.0**	357,857.6	100.0

Notes:

(1) Include principal-protected wealth management products, which we classify as deposits from customers pursuant to People's Bank of China ("**PBOC**") rules.

(2) Consist primarily of margin deposits, funds deposited with us for remittance and temporary deposits

Our corporate deposits decreased by 7.4% from RMB275,328.1 million as of December 31, 2017 to RMB254,835.2 million as of June 30, 2018. The decrease in our corporate deposits was primarily due to our decision to optimize our deposit structure, actively control cost and focus more on improving the quality of our deposit-taking business.

Our personal deposits increased by 3.4% from RMB62,881.2 million as of December 31, 2017 to RMB65,008.7 million as of June 30, 2018. The increase in our personal deposits was primarily due to our insistence on the business strategy of drawing on new market capital by selling fortune products and the rapid increase in our personal integrated financial assets this year, which drove the growth in the size of personal deposits.

Deposits from banks and other financial institutions

As of June 30, 2018, our deposits from banks and other financial institutions amounted to RMB26,023.8 million, representing a decrease of 66.2% from RMB77,036.4 million as of December 31, 2017. The decrease in our deposits from banks and other financial institutions primarily reflected other capital sources of the Bank obtained in other ways other than the deposits from banks and other financial institutions.

Debt securities issued

As of June 30, 2018, our debt securities issued amounted to RMB150,585.0 million, representing an increase of 26.9% from RMB118,688.3 million as of December 31, 2017. The increase in our debt securities issued was primarily due to the increase in the issuance of our interbank negotiable certificates of deposit and issuance of tier-two capital bonds and financial bonds in the first half of this year.

Financial assets sold under repurchase agreements

As of June 30, 2018, our financial assets sold under repurchase agreements amounted to RMB35,368.0 million, representing a decrease of 30.2% from RMB50,696.4 million as of December 31, 2017. The decrease in our financial assets sold under repurchase agreements was primarily due to our innovation on development of liability sources in order to obtain funds from other channels.

3.4.3 Equity

The table below sets forth the components of the equity of the Bank as of the dates indicated.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Equity				
Share capital	**6,070.6**	**13.2**	6,070.6	13.5
Capital reserve	**10,731.1**	**23.3**	10,731.1	24.0
Investment revaluation reserve	**(210.7)**	**(0.4)**	(575.7)	(1.3)
Surplus reserve	**3,352.3**	**7.3**	3,352.3	7.5
General reserve	**9,122.6**	**19.8**	8,363.5	18.7
Retained earnings	**16,233.4**	**35.3**	16,141.7	36.1
Equity attributable to equity holders of the Bank	**45,299.3**	**98.5**	44,083.5	98.5
Non-controlling interests	**697.0**	**1.5**	672.4	1.5
Total equity	**45,996.3**	**100.0**	44,755.9	100.0

As of June 30, 2018, our shareholders' equity amounted to RMB45,996.3 million, representing an increase of 2.8% compared to RMB44,755.9 million as of December 31, 2017. Equity attributable to equity holders of the Bank was RMB45,299.3 million as of June 30, 2018, representing an increase of 2.8% compared to RMB44,083.5 million as of December 31, 2017. The increase in the shareholders' equity for the six months ended June 30, 2018 was mainly due to the increase of our net profits in the first half of 2018.

3.5 ANALYSIS OF OFF-BALANCE SHEET ITEMS

The following table sets forth, as of December 31, 2017 and June 30, 2018, the contractual amounts of our off-balance sheet commitments.

	As of June 30, 2018	As of December 31, 2017
	(Amounts in millions of RMB)	
Bank acceptance	**27,807.7**	29,021.4
Letters of credit	**8,322.4**	8,557.0
Letters of guarantee issued	**3,598.9**	6,272.4
Undrawn credit card limit	**2,057.7**	1,800.0
Subtotal	**41,786.7**	45,650.8
Operating lease commitments	**1,338.4**	1,372.6
Capital commitments	**275.6**	156.3
Total	**43,400.7**	47,179.7

3.6 ANALYSIS

Distribution of Loans by Five-category Loan Classification

The following table sets forth, as of December 31, 2017 and June 30, 2018, the distribution of our loans by the five-category loan classification.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Normal	**228,796.0**	**94.0**	234,495.9	94.2
Special mention	**10,810.5**	**4.4**	10,647.4	4.3
Subtotal	**239,606.5**	**98.4**	245,143.3	98.5
Substandard	**2,712.1**	**1.1**	2,726.7	1.1
Doubtful	**736.3**	**0.3**	632.6	0.3
Loss	**485.4**	**0.2**	378.1	0.1
Subtotal	**3,933.8**	**1.6**	3,737.4	1.5
Total loans to customers	**243,540.3**	**100.0**	248,880.7	100.0

As of June 30, 2018, according to the five-category classification, the normal loans amounted to RMB228,796.0 million, representing a decrease of RMB5,699.9 million as compared to that as of December 31, 2017. The normal loans accounted for 94.0% of all the loans of the Bank as of June 30, 2018. Loans classified as special mention were RMB10,810.5 million, representing an increase of RMB163.1 million as compared to that as of December 31, 2017. The loans classified as special mention accounted for 4.4% of all loans. The non-performing loans were RMB3,933.8 million, representing an increase of RMB196.4 million as compared to that as of December 31, 2017 with a non-performing loan ratio of 1.62%, representing a slight increase as compared to that as of December 31, 2017, primarily due to operational difficulties and deteriorated repayment abilities of certain of our corporate and retail customers as a result of the slowdown of the PRC economy growth.

Distribution of Corporate Loans by Industry

The following table sets forth the distribution of our corporate loans by industry as of the dates indicated.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Manufacturing	**42,384.8**	**21.6**	51,970.7	24.5
Wholesale and retail	**34,104.7**	**17.4**	39,572.7	18.7
Real estate	**31,606.9**	**16.1**	24,471.9	11.6
Leasing and business services	**27,612.3**	**14.0**	20,649.3	9.8
Construction	**21,759.4**	**11.1**	24,366.2	11.5
Water, environment and public facilities management	**17,016.2**	**8.7**	23,424.3	11.1
Transportation, storage and postal services	**5,601.9**	**2.9**	6,607.5	3.1
Finance	**3,814.7**	**1.9**	3,069.5	1.5
Electricity, heat, gas and water production and supply	**3,590.9**	**1.8**	3,941.1	1.9
Resident services, repair and other services	**2,259.6**	**1.1**	3,775.2	1.8
Accommodation and catering	**1,018.2**	**0.5**	1,231.6	0.6
Agriculture, forestry, animal husbandry and fishery	**894.2**	**0.5**	790.8	0.4
Scientific research and technical services	**448.2**	**0.2**	1,413.1	0.7
Public administration, social security and social organization	**220.0**	**0.1**	1,064.0	0.5
Others(1)	**4,199.0**	**2.1**	4,911.1	2.3
Total corporate loans(2)	**196,531.0**	**100.0**	211,259.0	100.0

Notes:

(1) Consist primarily of following industries: (i) information transmission, software and information technology services, (ii) mining, (iii) health and social services, (iv) education, and (v) cultural, sports and entertainment.

(2) Consists of finance lease receivables.

In the first half of 2018, the Bank actively supported the development of the real economy with its credit extension structure further optimized. As of June 30, 2018, loans provided to customers in the industries of (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) leasing and business services, and (v) construction represented the top five largest components of the Bank's corporate loans. As of June 30, 2018 and December 31, 2017, the balance of loans provided to the corporate customers in these top five industries were RMB157,468.1 million and RMB161,030.8 million, respectively, accounting for 80.1% and 76.1% of the total corporate loans and advances issued by the Bank, respectively.

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans to corporate customers by industry.

	As of June 30, 2018			As of December 31, 2017		
	Amount	**% of the total (%)**	**NPL ratio[1] (%)**	Amount	% of the total (%)	NPL ratio[1] (%)
	(Amounts in millions of RMB, except percentages)					
Wholesale and retail	**1,184.2**	**36.0**	**3.47**	1,430.2	45.9	3.61
Manufacturing	**1,713.7**	**52.1**	**4.04**	1,332.7	42.8	2.56
Mining	**130.5**	**4.0**	**14.78**	100.5	3.2	6.74
Construction	**79.4**	**2.4**	**0.36**	85.6	2.7	0.35
Transportation, storage and postal services	**58.1**	**1.8**	**1.04**	61.9	2.0	0.94
Information transmission, software and information technology services	**34.0**	**1.0**	**1.73**	34.0	1.1	1.34
Real estate	**46.8**	**1.4**	**0.15**	46.8	1.5	0.19
Scientific research and technical services	**14.8**	**0.5**	**3.30**	14.8	0.5	1.05
Agriculture, forestry, animal husbandry and fishery	**25.7**	**0.8**	**2.87**	7.9	0.3	1.00
Total non-performing corporate loans[2]	**3,287.2**	**100.0**	**1.67**	3,114.4	100.0	1.47

Notes:

(1) Calculated by dividing non-performing loans to corporate customers in each industry by gross loans to corporate customers in that industry.

(2) Consists of finance lease receivables.

Our non-performing corporate loans consist primarily of non-performing loans to corporate borrowers in the manufacturing industry and wholesale and retail industry. The non-performing loan ratio for our corporate loans in the wholesale and retail industry were 3.61% and 3.47% as of December 31, 2017 and June 30, 2018, respectively. As of December 31, 2017 and June 30, 2018, non-performing corporate loans to borrowers in this industry accounted for 45.9% and 36.0% of our total non-performing corporate loans, respectively. The decrease in the non-performing loan ratio for our corporate loans to borrowers in the manufacturing industry was primarily due to the deterioration of the financial condition of certain corporate borrowers due to the general economic slowdown of the PRC.

The non-performing loan ratio for our corporate loans in the manufacturing industry were 2.56% and 4.04% as of December 31, 2017 and June 30, 2018, respectively. As of December 31, 2017 and June 30, 2018, non-performing corporate loans to borrowers in this industry accounted for 42.8% and 52.1% of our total non-performing corporate loans, respectively. The increase in the non-performing ratio for our corporate loans to borrowers in the manufacturing industry primarily reflected our continued efforts of active management and collection of non-performing loans.

The non-performing loan ratio for our corporate loans in the mining industry was 6.74% and 14.78% as of December 31, 2017 and June 30, 2018, respectively. As of December 31, 2017 and June 30, 2018, non-performing corporate loans to borrowers in this industry accounted for 3.2% and 4.0% of our total non-performing corporate loans, respectively. The increase of our non-performing loan ratio for our corporate loans to borrowers in mining industry primarily reflected the deterioration of the financial condition of certain corporate borrowers due to the economic slowdown of the PRC.

The non-performing loan ratio for our corporate loans in the construction industry was 0.36% as of June 30, 2018 and our non-performing corporate loans to borrowers in this industry accounted for 2.4% of our total non-performing corporate loans as of the same date. The increase of our non-performing loan ratio for our corporate loans to borrowers in this industry primarily reflected the deterioration of the financial condition of certain corporate borrowers due to the general economic slowdown of the PRC.

The non-performing loan ratio for our corporate loans in the transportation, storage and postal services industry was 0.94% and 1.04% as of December 31, 2017 and June 30, 2018, respectively. As of December 31, 2017 and June 30, 2018, non-performing corporate loans to borrowers in this industry accounted for 2.0% and 1.8% of our total non-performing corporate loans, respectively. The increase in the non-performing loan ratio for our corporate loans to borrowers in transportation, storage and postal services industry primarily reflected the deterioration of the financial condition of certain corporate borrowers due to the general economic slowdown of the PRC.

Distribution of Non-Performing Loans by Product type

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

	As of June 30, 2018			As of December 31, 2017		
	Amount	**% of the total (%)**	**NPL ratio[1] (%)**	Amount	% of the total (%)	NPL ratio[1] (%)
	(Amounts in millions of RMB, except percentages)					
Corporate loans[2]						
Working capital loans	**2,879.9**	**73.2**	**2.39**	2,622.2	70.2	1.86
Trade Finance	**23.4**	**0.6**	**0.42**	23.6	0.6	0.45
Others[3]	**383.9**	**9.8**	**5.95**	468.6	12.5	7.81
Subtotal	**3,287.2**	**83.6**	**1.67**	3,114.4	83.3	1.47
Discounted bills	**60.0**	**1.5**	**0.67**	60.0	1.6	1.85
Subtotal	**60.0**	**1.5**	**0.67**	60.0	1.6	1.85
Personal loans						
Residential mortgage loans	**38.9**	**1.0**	**0.17**	36.0	1.0	0.17
Personal consumption loans	**105.1**	**2.7**	**0.93**	76.2	2.0	0.87
Personal business loans	**406.4**	**10.3**	**11.47**	419.1	11.3	10.98
Credit card overdrafts	**36.2**	**0.9**	**6.03**	31.7	0.8	6.54
Subtotal	**586.6**	**14.9**	**1.54**	563.0	15.1	1.64
Total non-performing loans	**3,933.8**	**100.0**	**1.62**	3,737.4	100.0	1.50

Note:

(1) Calculated by dividing non-performing loans in each product type by gross loans in that product type.

(2) The total amount of corporate loans here consists of our corporate loans and finance lease receivables.

(3) Consist primarily of advances under bank acceptances and letters of credit issued by us and corporate overdrafts.

The non-performing loan ratio for our corporate loans increased from 1.47% as of December 31, 2017 to 1.67% as of June 30, 2018, with a 5.55% increase in our non-performing corporate loans from RMB3,114.4 million to RMB3,287.2 million. The increase in our non-performing corporate loans was primarily due to operational difficulties and deteriorated repayment abilities of certain of our customers as a result of the slowdown of the PRC economy.

The non-performing loan ratio for our personal loans decreased from 1.64% as of December 31, 2017 to 1.54% as of June 30, 2018, with a 4.23% increase in our non-performing personal loans from RMB563.0 million as of December 31, 2017 to RMB586.6 million as of June 30, 2018. The decreases in our non-performing loan ratio for our personal loans were primarily due to the increase in our personal business loans. The balance of our non-performing personal loans increased slightly as compared with that as at December 31, 2017, was primarily attributable to the operational difficulties and deteriorated repayment abilities of certain individual business during the economic slowdown of the PRC.

The non-performing loan ratio for our discounted bills was 1.85% as of December 31, 2017 and our non-performing loans for discounted bills amounted to RMB60.0 million as of the same date. The non-performing loan ratio for our discounted bills was 0.67% as of June 30, 2018 and our non-performing loans for discounted bills amounted to RMB60.0 million as of the same date. We recorded a total of RMB3,933.8 million non-performing loans as of June 30, 2018, which was primarily due to operational difficulties and deteriorated repayment abilities of certain of our customers as a result of the slowdown in the PRC economy.

Distribution of Non-Performing Loans by Geographical Region

The following table sets forth, as of December 31, 2017 and June 30, 2018, the distribution of our non-performing loans by geographical region.

	As of June 30, 2018			As of December 31, 2017		
	Amount	**% of the total (%)**	**NPL ratio (%)**	Amount	% of the total (%)	NPL ratio (%)
	(Amounts in millions of RMB, except percentages)					
Tianjin	**1,004.2**	**25.6**	**0.83**	1,014.1	27.1	0.81
Beijing	**192.2**	**4.9**	**1.15**	207.8	5.6	1.11
Shandong Province	**811.8**	**20.6**	**2.44**	484.4	13.0	1.39
Shanghai	**492.1**	**12.5**	**1.81**	543.9	14.5	2.17
Hebei Province	**1,386.1**	**35.2**	**4.98**	1,430.5	38.3	4.92
Sichuan Province	**47.4**	**1.2**	**0.28**	56.7	1.5	0.38
Total non-performing loans	**3,933.8**	**100.0**	**1.62**	3,737.4	100.0	1.50

Distribution of Loans by Collateral

The following table sets forth, as of December 31, 2017 and June 30, 2018, the distribution of our loans and advances to customers by type of collateral.

	As of June 30, 2 018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Unsecured loan	**33,338.0**	**13.7**	33,185.2	13.3
Guaranteed loan	**109,319.4**	**44.9**	114,429.9	46.0
Collateralized loans(1)	**67,524.9**	**27.7**	61,601.8	24.8
Pledged loans(1)	**33,358.0**	**13.7**	39,663.8	15.9
Total loans and advances to customers	**243,540.3**	**100.0**	248,880.7	100.0

Note:

(1) Represents the total amount of loans fully or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the allocation is based on the primary form of security interest.

Borrowers concentration

In the first half of 2018, the Bank's total loans to its largest single borrower accounted for 5.12% of its regulatory capital while total loans to its top ten customers accounted for 29.96% of its regulatory capital, which were in compliance with regulatory requirements.

a. Indicators of concentration

Major regulatory indicators	Regulatory standard	As of June 30, 2018	As of December 31, 2017
Loan concentration ratio for the largest single customer (%)	<=10	5.12	6.36
Loan concentration ratio for the top ten customers (%)	<=50	29.96	41.55

Note: The data above are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission.

b. Loans to top ten single borrowers

The following table sets forth, as of the date indicated, our loan exposure to our ten largest single borrowers, all of which were classified as normal at that date.

		As of June 30, 2018			
	Industry	Amount	% of total loans (%)	% of regulatory capital[1] (%)	Classification
		(Amounts in millions of RMB, except percentages)			
Borrower A	Manufacturing	**3,482.4**	**1.43**	**5.1**	Normal
Borrower B	Manufacturing	**2,613.7**	**1.07**	**3.8**	Normal
Borrower C	Wholesale and retail	**2,600.0**	**1.07**	**3.8**	Normal
Borrower D	Real estate	**2,151.0**	**0.88**	**3.2**	Normal
Borrower E	Leasing and business services	**1,985.0**	**0.82**	**2.9**	Normal
Borrower F	Leasing and business services	**1,982.7**	**0.81**	**2.9**	Normal
Borrower G	Manufacturing	**1,960.1**	**0.80**	**2.9**	Normal
Borrower H	Real estate	**1,268.0**	**0.52**	**1.9**	Normal
Borrower I	Real estate	**1,200.0**	**0.49**	**1.8**	Normal
Borrower J	Water, environment and public facilities management	**1,132.5**	**0.47**	**1.7**	Normal
Total		**20,375.4**	**8.36**	**30.0**	

Note:

(1) Represents loan balances as a percentage of our regulatory capital, calculated in accordance with the requirements of the Capital Administrative Measures and based on our financial statements prepared in accordance with PRC GAAP.

As of June 30, 2018, the loan balance of the largest single borrower of the Bank was RMB3,482.4 million, accounting for 1.43% of the total amount of loans of the Bank; and the total amount of loans of the top ten single borrowers was RMB20,375.4 million, representing 8.36% of the total amount of loans of the Bank.

Loan Aging Schedule

The following table sets forth, as of the dates indicated, our loan aging schedule.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Current loans	**235,039.2**	**96.50**	242,020.0	97.24
Loans past due but not impaired[1]				
Up to 30 days	**1,904.1**	**0.78**	1,148.7	0.46
31 to 60 days	**1,538.8**	**0.63**	317.5	0.13
61 to 90 days	**818.8**	**0.34**	664.5	0.27
More than 90 days	**305.6**	**0.13**	992.6	0.40
Subtotal	**4,567.3**	**1.88**	3,123.3	1.26
Impaired loans	**3,933.8**	**1.62**	3,737.4	1.50
Subtotal	**243,540.3**	**100.00**	248,880.7	100.00
Allowances for impairment losses	**(9,424.9)**		(7,243.5)	
Total	**234,115.4**		241,637.2	

Note:

(1) Represents the principal amount of the loans on which principal or interest is overdue but not impaired.

Changes to Allowance for Impairment Losses

The allowance for impairment losses of loans increased by 18.3% to RMB9,424.9 million as of June 30, 2018 from RMB7,966.5 million as of January 1, 2018 (after restatement). This increase was mainly due to an increase in our non-performing loans.

	As of June 30, 2018		As of December 31, 2017	
	Amount	**NPL ratio (%)**	Amount	NPL ratio (%)
	(Amounts in millions of RMB, except percentages)			
Beginning of period (after restatement)	**7,966.5**	**1.50**	6,146.2	1.48
Net provisions for the period[1]	**1,449.0**		1,338.6	
Unwinding of discount	**(49.9)**		(78.7)	
Write-offs	**–**		(298.7)	
Recoveries	**59.3**		136.1	
End of period	**9,424.9**	**1.62**	7,243.5	1.50

Note:

(1) Represents the net amount of allowance for impairment losses recognized in the profit or loss statement.

3.7 *SEGMENT REPORT*

Geographical Segment Report

In presenting information on the basis of geographical regions, operating income is gathered according to the locations of the branches or subsidiaries that generated the income. For the purpose of presentation, we categorize such information by geographical regions. The following table sets forth the total operating income of each of the geographical regions for the periods indicated.

	For the six months ended June 30,			
	2018		2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Tianjin	**3,433.3**	**57.6**	2,836.6	53.8
Shandong Province	**574.6**	**9.6**	642.6	12.1
Shanghai	**425.1**	**7.1**	377.6	7.1
Sichuan Province	**440.0**	**7.4**	605.7	11.4
Beijing	**647.6**	**10.9**	340.2	6.4
Hebei Province	**398.6**	**6.7**	454.6	8.6
Ningxia	**41.7**	**0.7**	33.8	0.6
Total	**5,960.9**	**100.0**	5,291.1	100.0

Business Segment Report

The following table sets forth, for the periods indicated, the operating income of each of our principal segment.

	For the six months ended June 30,			
	2018		2017	
	Amount	**% of the total (%)**	Amount	% of the total (%)
	(Amounts in millions of RMB, except percentages)			
Corporate banking	**3,830.2**	**64.3**	3,817.4	72.1
Retail banking	**825.0**	**13.8**	929.4	17.6
Treasury business	**1,312.9**	**22.0**	540.5	10.2
Others[1]	**(7.2)**	**(0.1)**	3.8	0.1
Total	**5,960.9**	**100.0**	5,291.1	100.0

Note:

(1) Consists primarily of income that are not directly attributable to any specific segment.

3.8 ANALYSIS ON CAPITAL ADEQUACY RATIO

As of June 30, 2018, capital adequacy ratio was 14.06%, 3.32 percentage points higher than that at the end of 2017; tier-one capital adequacy ratio and core tier-one capital adequacy ratio were 9.37% and 9.36%, respectively, 0.72 percentage point higher than those at the end of 2017.

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

	As of June 30, 2018	As of December 31, 2017
	(Amounts in millions of RMB, except percentages)	
Core capital		
– Share capital	**6,070.6**	6,070.6
– Capital reserve and investment revaluation reserve	**10,520.4**	10,155.4
– Surplus reserve and general reserve	**12,474.9**	11,715.8
– Retained earnings	**16,233.4**	16,141.7
– Portion of non-controlling interests that may be included	**299.8**	260.9
Total core capital	**45,599.1**	44,344.4
Core tier-one capital	**45,599.1**	44,344.4
Core tier-one capital deductible items	**(304.7)**	(308.5)
Net core tier-one capital	**45,294.4**	44,035.9
Net tier-one capital	**45,334.4**	44,070.7
Tier-two capital		
– Net tier-two capital instruments and related premiums	**17,100.0**	7,100.0
– Surplus allowance for impairment losses on loans	**5,491.0**	3,506.1
– Portion of minority shareholders that may be included	**79.9**	69.6
Total tier-two capital	**22,670.9**	10,675.7
Net capital base	**68,005.3**	54,746.4
Total risk-weighted assets	**483,838.5**	509,646.4
Core tier-one capital adequacy ratio (Expressed in percentage)	**9.36**	8.64
Tier-one capital adequacy ratio (Expressed in percentage)	**9.37**	8.65
Capital adequacy ratio (Expressed in percentage)	**14.06**	10.74

As of June 30, 2018, the Bank's leverage ratio was 6.64%.

(Expressed in percentage)

	As of June 30, 2018	As of December 31, 2017
Leverage ratio	**6.64%**	5.97%

Pursuant to the Leverage Ratio Management of Commercial Bank (Amended) issued by the China Banking Regulatory Commission (the "CBRC"), effective from April 2015, a minimum leverage ratio of 4% is required. The above leverage ratios are calculated according to the formula promulgated by the CBRC.

3.9 RISK MANAGEMENT

Our Bank is exposed to the following primary risks: credit risk, operational risk, market risk, liquidity risk and information technology risk. In 2018, we continuously enhanced our comprehensive risk management system and improved our risk control, continued to facilitate the establishment of an integrated and comprehensive risk management system through which we have managed to successfully meet relevant regulatory requirements, mitigate risks associated with general unstable economic conditions, and secure the sustainable development of our business. In particular, our Bank strives to maintain a risk management system to strike the balance between risk and return, so as to strictly control our risk exposure while maintaining the flexibility to allow business innovations and maintain asset quality.

Credit Risk

Credit risk refers to risk resulting from the failure by an obligor or counterparty to fulfill its obligations under the contract or changes in its credit ratings. Our Bank is exposed to credit risks primarily associated with our corporate loan business, personal loan business and treasury business.

Our Bank has established a relatively sound authorization and credit review and extension management system. The Bank has established a credit risk management system based on the principle of vertical management for credit risk, ensured the independence of credit review and extension based on the principle of separation for loan approval and extension and approval at various levels, and established a scientific and rigorous authorization and credit review and extension management system. The Bank implements a centralized credit extension system, under which exposures to credit risk of all our banking books and that of our trading books, including credit business and non-credit business, all ways and types of credit extension are under centralized credit extension management and reviewed by review authorities or reviewer with corresponding authorization for credit review and extension.

The Bank has established credit risk management mechanism, system and procedures in line with its business nature, scale and complexity, to manage, execute and implement unified risk preferences, effectively identify, measure, control, monitor and report credit risk, so as to control credit risk within the range we can tolerate.

The Bank strives to improve our overall credit risk management capabilities through a variety of measures, such as establishing a digital credit extension management system, establishing a twelve-level loan categorization system and adopting specific programs to manage relevant risks, improving our capacity to process credit risk management by utilizing information technology, conducting post-credit extension risk management, and further enhancing credit review and monitoring. The Bank intends to develop an internal rating system on credit risk for retail and non-retail business to effectively manage the review, monitoring and risk alerts in the course of our credit extension, so as to further enhance our credit risk control capability.

Operational Risk

Operational risk refers to risk caused by inadequate or problematic internal procedures, personnel and information technology systems, as well as external events. Our Bank's operational risks primarily arise from internal and external frauds, worksite safety failures, business interruptions and failures in the information technology system.

Our Bank has formulated various operational risk management policies and procedures, aiming to effectively identify, assess, monitor, control and mitigate our Bank's operational risk, and minimize any losses associated with the operational risk. Our Bank established "three lines of defenses" to manage operational risks on an end-to-end basis, where our business departments, functional departments, internal control & compliance departments and internal audit departments work closely to achieve effective risk control. As the first line of defense against operational risk management, our business departments and functional departments at all levels are directly responsible for managing operational risks and are the first person responsible for operational risk management. Our internal control and compliance departments at all levels are the second line of defense against operational risk management, responsible for the building of operational risk management system and the overall management of operational risks. Our audit department is the third line of defense against risk control, responsible for evaluating the effectiveness of our operational risk management policies and carrying out internal control assessment in due course.

Market Risk

Market risk is the risk of loss in on- and off-balance sheet positions arising from movements in market prices caused by interest rates, exchange rates and other market factors, which primarily includes interest rate risk and exchange rate risk. Our Board of Directors undertakes the ultimate responsibility for the monitoring on market risk management to ensure that the Bank effectively identifies, measures, monitors and controls the various market risks assumed by various businesses. Our senior management is responsible for formulating, regularly reviewing and supervising the implementation of policies, procedures and specific operation procedures for market risk management, keeping abreast of the level of market risk and its management and ensuring that the Bank has sufficient human resources, materials, and appropriate organization structure, management information system and technical level to effectively identify, measure, monitor and control the various market risks assumed by various businesses. The Bank, through the improvement of market risk governance structure, management tool, system construction, effective measurement of market risk, controls negative effects of adverse movements in market price on the financial instrument position and relevant businesses within the reasonable range the Bank can tolerate, so as to ensure that various market risk indicators meet the regulatory requirements and operation needs.

Liquidity Risk Management

Liquidity risk refers to the risk of failure for commercial banks to acquire sufficient funds in a timely manner and at a reasonable cost to pay off debts due or meet the liquidity demand in line with expansion of our business operations. We are exposed to liquidity risk primarily in the funding of our lending, trading and investment activities, as well as in the management of our liquidity positions.

Our Bank adopts the centralized management model for our liquidity risk management. Guided by the Board's liquidity risk management policies and led by the senior management, the head office and branches work in conjunction with all relevant departments to implement the centralized management model that accords with our business scale and overall development plans, under which the head office will uniformly manage our general liquidity risks.

In light of the changes in the macro environment, monetary policy and regulatory policy, our Bank always adheres to the strategy of prudent liquidity risk management and strives to enhance the level of liquidity risk management. By managing the liquidity risks through monitoring the maturity of assets and liabilities, the Bank also monitors several key liquidity indicators. Our Bank also formulated asset management strategies to mitigate liquidity risks by constantly optimizing our own asset structure and improving our liquidity management capability. Our Bank conducts stress tests for liquidity risks on a quarterly basis. In such regard, it can ensure that our Bank has sufficient liquidity.

Information Technology Risk Management

We are subject to information technology risk which may cause operational, legal and reputational risks. We strive to improve our information technology risk management and enhance the application of information technology, to ensure the security of our systems, websites and data. We also strengthened our management and increased our investment in the information technology to effectively mitigate potential risks. Management Policy on Business Continuity of Bank of Tianjin (《天津銀行業務連續性管理政策》) and Measures on Management of Business Continuity of Bank of Tianjin (《天津銀行業務連續性管理辦法》), the formulation of which was led by the Legal and Compliance Department of our head office, had been considered and approved, and were promulgated across the Bank in May 2017.

3.10 Business Review

Corporate Banking

In response to the changes of the economic and policy environment of China, we continued to improve our marketing capabilities and customer services through business innovation, and promoted the development of our corporate banking. For the six months ended June 30, 2018, our operating income from corporate banking amounted to RMB3,830.2 million, accounting for 64.3% of the total operating income over the same period, representing an increase of 0.3% as compared to the same period last year.

As of June 30, 2018, the balance of our corporate loans (excluding discounted bills and finance lease receivables) amounted to RMB186,587.6 million, representing a decrease of 7.9% as compared to that of December 31, 2017. As of the same date, RMB142,803.2 million of these loans were loans to small and medium-sized enterprises ("**SMEs**"), accounting for 76.5% of our total corporate loans and representing a decrease of 6.0% as compared to that of December 31, 2017. As of June 30, 2018, our total corporate deposits amounted to RMB254,835.2 million, representing a decrease of 7.4% as compared to that of December 31, 2017. For the six months ended June 30, 2018, our Bank focused on the development of fee- and commission-based corporate banking and services, continued to refine our business structure and diversify our product portfolio. Our branches have also strengthened promotion of fee- and commission-based corporate banking products.

The balance of our loans to technological SMEs was RMB16,465.1 million as of June 30, 2018, representing a decrease of 7.0% as compared to that of December 31, 2017. Our non-performing loan ratio of loans to SMEs was 1.58% as of June 30, 2018.

Furthermore, the Bank developed the financial leasing business through establishing Bank of Tianjin Financial Leasing Co., Ltd., which commenced its business operation in October 2016. As of June 30, 2018, total assets and net profit of Bank of Tianjin Financial Leasing Co., Ltd. amounted to RMB10,720.1 million and RMB35.0 million, respectively.

Retail Banking

For the six months ended June 30, 2018, our Bank strengthened marketing efforts towards retail banking customers and continuously developed our retail banking by diversifying the products of our retail banking and enhancing the structure of our retail banking customers. For the six months ended June 30, 2018, the operating income from our retail banking amounted to RMB825.0 million, accounting for 13.8% of our total operating income over the same period and representing a decrease of 11.2% as compared to the same period last year. As of June 30, 2018, the balance of our personal loans reached RMB38,101.0 million, accounting for 15.6% of our total loans to customers. As of June 30, 2018, our residential mortgage loans, personal consumption loans, personal business loans and credit card overdrafts amounted to RMB22,656.7 million, RMB11,300.9 million, RMB3,542.3 million and RMB601.1 million, respectively, and accounted for 59.5%, 29.6%, 9.3%, and 1.6% of our total personal loans, respectively. As of the same date, our total personal deposits amounted to RMB65,008.7 million, representing an increase of 3.4% as compared to that of December 31, 2017.

For the six months ended June 30, 2018, our Bank continued to diversify our products and product functions of credit cards. As of June 30, 2018, our Bank had issued 195,264 credit cards.

Rural Financial Services

Our Bank earnestly implemented the state's policies and requirements for supporting "agriculture, rural areas and farmers", actively performed our responsibilities for inclusive finance and continuously improved rural financial services and layout of branches in rural areas. As of June 30, 2018, our Bank established a total of 8 county banks in nationally designated poor counties with small economic aggregate and weak basis for financial services in Xinjiang and Ningxia and Jizhou District, Tianjin.

Treasury Business

For the six months ended June 30, 2018, our Bank continued to focus on researching macroeconomic policies and market analysis in order to reduce the adverse impacts of market volatility and minimize the impact of a slowdown in the PRC economic development. For the six months ended June 30, 2018, the operating income from our treasury business amounted to RMB1,312.9 million, accounting for 22.0% of our total operating income and representing an increase of 142.9% as compared to the same period last year.

Money Market Transactions

For the six months ended June 30, 2018, our Bank closely monitored the development and changes in the cost of capital in the money market, took the initiative to downsize low-yield money market business and allocated funds to other high-yield assets while guaranting liquidity. As of June 30, 2018, the balance of our deposits and placements with banks and other financial institutions and financial assets held under resale agreements reached RMB25,079.8 million, representing a decrease of 15.4% as compared to that of December 31, 2017 and accounting for 3.9% of our total assets as of June 30, 2018. As of the same date, the balance of our deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements reached RMB83,364.4 million, representing a decrease of 44.6% as compared to that as of December 31, 2017 and accounting for 13.8% of our total liabilities as of June 30, 2018.

Investments in Securities and Other Financial Assets

For the six months ended June 30, 2018, our Bank adjusted our investment strategies and increased investment in credit bonds with high credit rating and asset-backed securities by further strengthening research and analysis on financial market and changes of policy environment. As of June 30, 2018, the balance of our investments in debt securities was RMB136,831.5 million, representing an increase of 7.2% as compared to that of December 31, 2017. As of June 30, 2018, the balance of our investments in debt securities issued by PRC banks and financial institutions was RMB46,292.6 million, representing a decrease of 0.4% as compared to that as of December 31, 2017.

As of June 30, 2018, the balance of investments in credit bonds and asset-backed securities was RMB60,606.5 million, representing an increase of 23.1% as compared to that of December 31, 2017.

Treasury Business Conducted on Behalf of Customers

For the six months ended June 30, 2018, the wealth management business of our Bank grew steadily because (i) we made continuous efforts to provide various wealth management products to meet our customers' diversified needs, resulting in comparatively stronger market competitiveness; and (ii) we strengthened marketing efforts towards our corporate banking customers, retail banking customers and interbank customers.

As of June 30, 2018, the total outstanding amount of wealth management products issued by us was RMB120,543.5 million. For the six months ended June 30, 2018, the net fee and commission income from the wealth management products issued by us amounted to RMB526.3 million.

International Business

For the six months ended June 30, 2018, our Bank's international settlement volume amounted to US$3,097.8 million.

4. ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

During the Reporting Period, the Bank was not engaged in any material acquisition or disposal of assets or business merger.

5. OTHER INFORMATION

5.1 Corporate Governance Code

During the Reporting Period, our Bank continued to improve the transparency and accountability of its corporate governance and ensured high standards of corporate governance practices to protect the interests of shareholders and enhance corporate value and commitment.

Our Bank has established a relatively comprehensive corporate governance structure in accordance with the requirements of the Hong Kong Listing Rules. The compositions of the Board and the special committees of the Board are in compliance with the requirements of the Hong Kong Listing Rules.

Our Bank has adopted the Corporate Governance Code (the "**Code**") in Appendix 14 to the Hong Kong Listing Rules, and has met the requirements of the PRC commercial bank administrative measures and corporate governance and has established a sound corporate governance system. The Board believes that our Bank has always complied with the requirements of the code provisions set out in the Code during the Reporting Period.

Our Bank is committed to maintaining high standards in corporate governance. Our Bank will continue to review and enhance its corporate governance to ensure compliance with the Code and meeting expectations from our shareholders and potential investors.

5.2 Directors, Supervisors and Senior Management of the Bank

As of the date of this announcement, the compositions of the Board, the Board of Supervisors and senior management of the Bank are as follows:

The Board of the Bank comprised a total of fifteen directors, including four executive directors, namely Mr. LI Zongtang (Chairman), Mr. SUN Liguo (President), Ms. ZHANG Furong (Vice President, Boad Secretary) and Mr. LIANG Jianfa (Vice President, Chief Financial Officer); six non-executive directors, namely Ms. SUN Jingyu, Mr. WU Tao and Mr. Alistair Marshall Bulloch, Mr. ZHAO Wei, Mr. XIAO Jingxi and Ms. LI Jun; and five independent non-executive directors, namely Mr. FENG Heping, Mr. LAW Yee Kwan, Quinn, Mr. JIN Qingjun, Mr. HUA Yaogang and Mr. HE Jia.

The Board Of Supervisors of the Bank comprised a total of five supervisors, including two employee representative supervisors, namely Ms. FENG Xia（the Chairwoman of the Board of Supervisors）and Mr. YAO Tao; one shareholder representative supervisor, namely Mr. YU Yang; and two external supervisors, namely Mr. ZHANG Lianming and Mr. LIU Baorui.

The senior management of the Bank comprised a total of six members, namely Mr. SUN Liguo, Ms. ZHANG Furong, Ms. ZHANG Ying, Mr. LIANG Jianfa, Mr. XIA Zhenwu and Mr. WANG Feng.

5.3 Changes in Directors, Supervisors and Senior Management during the Reporting Period

On January 12, 2018, Mr. YUE Desheng resigned as an executive director of the Bank, and a member of the related party transactions control committee, risk management committee and consumer rights protection committee under the Board and vice president of the Bank. According to the Company Law of the People's Republic of China, other relevant laws and regulations and the Articles of Association of the Bank, Mr. YUE's resignation has become effective since January 12, 2018. For details, please refer to the announcement entitled "RESIGNATION OF EXECUTIVE DIRECTOR AND VICE PRESIDENT" issued by the Bank on January 12, 2018.

On January 19, 2018, Ms. FENG Xia resigned as a shareholder representative supervisor of the Bank and a member of the supervision committee of the Board of Supervisors. Ms. FENG's resignation has become effective since January 19, 2018. The Bank held an employee representative meeting on January 19, 2018, in which Ms. FENG was elected as an employee representative supervisor of the Bank, effective from January 19, 2018. On the same day, the Board of Supervisors held a meeting, in which Ms. FENG was elected as the chairwoman of the Board of Supervisors, a member of the supervision committee and a member of nomination committee of the Board of Supervisors, effective from January 19, 2018. For details, please refer to the announcement entitled "CHANGE OF SUPERVISORS AND APPOINTMENT OF CHAIRMAN OF BOARD OF SUPERVISORS" issued by the Bank on January 19, 2018.

Reference is made to the announcement of the Bank dated May 4, 2017, regarding the resignation of Mr. ZHANG Xiang as an employee representative supervisor of the Bank with effect from January 19, 2018.

Mr. LIANG Jianfa, Ms. SUN Jingyu, Mr. WU Tao, Mr. XIAO Jingxi, Ms. LI Jun, Mr. HUA Yaogang and Mr. HE Jia (collectively the "**New Directors**") were appointed as directors by the shareholders of the Bank at the 2017 annual general meeting held on May 11, 2018. The qualifications of the New Directors as directors of the Bank have been approved by Tianjin Regulatory Bureau of China Banking Regulatory Commission (the "**CBRC Tianjin Office**") and the term of office of the New Directors commenced from June 8, 2018. Announcements regarding the appointment of the New Directors were published on March 23, 2018, March 27, 2018, May 11, 2018 and June 15, 2018.

At the first meeting of the sixth session of the Board held on June 15, 2018, Mr. LI Zongtang was reelected as the chairman of the Board of the Bank, and Mr. SUN Liguo was reappointed as the president of the Bank. The terms of office of Mr. LI as chairman and Mr. SUN as president commenced from June 15, 2018. For details, please refer to the announcement of the Bank dated June 15, 2018.

At the first meeting of the sixth session of the Board, Ms. ZHANG Furong was appointed as vice president and Board secretary of the Bank, Mr. LIANG Jianfa was appointed as vice president and chief financial officer of the Bank, Mr. XIA Zhenwu was appointed as assistant to president of the Bank and Mr. WANG Feng was appointed as assistant to president of the Bank. The terms of office of Ms. ZHANG Furong and Mr. LIANG Jianfa as vice president and Mr. XIA Zhenwu and Mr. WANG Feng as assistant to president of the Bank all commenced from June 15, 2018.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

5.4 Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Hong Kong Listing Rules as its codes of conduct regulating securities transactions by the directors and supervisors of the Bank.

Having made specific enquiries to all directors and supervisors of the Bank, each of the directors and supervisors has confirmed that they complied with the Model Code during the Reporting Period.

5.5 Profits and Dividends

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

The profit distribution plan for 2017 of the Bank was considered and approved by our shareholders at the Bank's 2017 annual general meeting held on May 11, 2018. A final dividend of RMB1.8 (tax inclusive) per ten shares for the year of 2017, amounting to a total dividend of RMB1,092.7 million (tax inclusive) was distributed to holders of H shares and domestic shares on July 6, 2018.

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

5.6 Repurchase, Sale and Redemption of The Listed Securities of the Bank

Neither the Bank nor its subsidiary had purchased, sold or redeemed any listed securities of the Bank during the Reporting Period.

5.7 Review of the Interim Results

The interim financial statements disclosed in this interim results announcement have not been audited. The interim financial statements for the six months ended June 30, 2018 prepared by the Bank in accordance with the IFRSs promulgated by the International Accounting Standards Board have been reviewed by Deloitte Touche Tohmatsu in accordance with the International Standard on Review Engagements.

The Board and the audit committee of the Board have reviewed and approved the interim results of the Bank.

5.8 Use of Proceeds

The proceeds from issuance of H shares of the Bank had been used in accordance with the intended usage as disclosed in the prospectus of the Bank. All net proceeds raised from the global offering of the Bank (after deduction of the underwriting fees and commissions and estimated expenses payable by the Bank in connection with the global offering) amounting to approximately RMB5.65 billion had been used to expand the capital of the Bank to support the ongoing growth of its business.

Approved by CBRC Tianjin Office and PBoC, the Bank issued tier-two capital bonds in the national inter-bank bond market on January 18, 2018, and the payment was completed on January 22. This tranche of bonds totaled RMB10 billion, with a maturity of 10 years at a fixed interest rate and a nominal interest rate of 4.8%, subject to the issuer's right to redeem under certain conditions at the end of the fifth year. All funds raised from this tranche of bonds have been used to replenish the Bank's tier-two capital in compliance with applicable laws and approvals from regulatory authorities.

On April 24, 2018, the Bank issued the first tranche of financial bonds for 2018 in the national inter-bank bond market and the payment was completed on April 26. This tranche of bonds issued were three-year fixed rate bonds, with a total amount of RMB10 billion and a coupon rate of 4.7%. The proceeds from issuance of this tranche of bonds have been used to meet the Bank's needs for asset-liability matching, replenish the capital sources, improve the debt maturity structure and promote steady business development according to applicable laws, approvals of regulatory departments and the purposes disclosed in the prospectus. The proceeds from issuance of this tranche of financial bonds will be used for investment in quality asset projects featuring controllable risks and corresponding terms in strict accordance with national policies and rules on industries in which investment is encouraged and forbidden.

On June 15, 2018, the Bank issued the second tranche of financial bonds for 2018 in the national inter-bank bond market and the payment was completed on June 20. This tranche of bonds issued were three-year fixed rate bonds, with a total amount of RMB6 billion and a coupon rate of 4.9%. The proceeds from issuance of this tranche of bonds have been used to meet the Bank's needs for asset-liability matching, replenish the capital sources, improve the debt maturity structure and promote steady business development according to applicable laws, approvals of regulatory departments and the purposes disclosed in the prospectus. The proceeds from issuance of this tranche of financial bonds will be used for investment in quality asset projects featuring controllable risks and corresponding terms in strict accordance with national policies and rules on industries in which investment is encouraged and forbidden.

5.9 Subsequent Events

On August 24, 2018, the Bank noted that the Tianjin High People's Court accepted the application in relation to the bankruptcy reorganization of our corporate loan client, Bohai Steel Group Company Limited. Based on the information available, the Bank has made a reasonable estimation of the potential credit risk.

Save as the disclosed above, no significant events occurred to the Bank and its subsidiaries after the Reporting Period.

6. INTERIM FINANCIAL STATEMENTS

6.1 Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Interest income	**12,703,261**	13,280,294
Interest expense	**(10,737,324)**	(8,981,017)
Net interest income	**1,965,937**	4,299,277
Investment income	**2,776,471**	–
Fee and commission income	**951,523**	1,080,816
Fee and commission expense	**(47,719)**	(30,124)
Net fee and commission income	**903,804**	1,050,692
Net trading gains/(losses)	**294,359**	(74,190)
Net gains arising from derecognition of financial assets at amortised costs	**36,202**	14,136
Other income, gains or losses	**(15,874)**	1,158
Operating income	**5,960,899**	5,291,073
Operating expenses	**(1,572,750)**	(1,398,532)
Impairment losses	**(748,950)**	(568,617)
Share of results of associated companies	**(2,634)**	(11,968)
Profit before tax	**3,636,565**	3,311,956
Income tax expense	**(771,572)**	(690,402)
Profit for the period	**2,864,993**	2,621,554

6.1 Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

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

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain/(losses) on:		
– Available-for-sale financial assets	**N/A**	(200,868)
– Debt instruments measured at fair value through other comprehensive income	**474,814**	N/A
Income tax relating to items reclassified to profit or loss	**(116,953)**	50,217
Other comprehensive income/(expense) for the period, net of tax	**357,861**	(150,651)
Total comprehensive income	**3,222,854**	2,470,903
Attributable to:		
Equity holders of the Bank	**2,840,472**	2,615,997
Non-controlling interests	**24,521**	5,557
	2,864,993	2,621,554
Total comprehensive income attributable to:		
Equity holders of the Bank	**3,198,333**	2,465,346
Non-controlling interests	**24,521**	5,557
Total comprehensive income for the period	**3,222,854**	2,470,903
Earnings per share (Expressed in RMB Yuan per share)		
– Basic	**0.47**	0.43

6.2 Condensed Consolidated Statement of Financial Position

As at June 30, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
ASSETS		
Cash and balances with central bank	**57,891,896**	57,372,466
Deposits with banks and other financial institutions	**3,896,208**	8,003,859
Placements with banks and other financial institutions	**17,283,571**	12,295,007
Derivative financial instruments	**109,197**	–
Financial assets held for trading	**N/A**	5,720,098
Financial assets held under resale agreements	**3,900,042**	9,356,836
Financial assets at fair value through profit or loss	**92,460,860**	N/A
Available-for-sale financial assets	**N/A**	36,270,946
Debt instruments at fair value through other comprehensive income	**51,665,650**	N/A
Loans and advances to customers	**234,115,433**	241,637,249
Debt instruments at amortised cost	**176,628,432**	N/A
Held-to-maturity investments	**N/A**	49,123,275
Investments classified as receivables	**N/A**	272,338,316
Interests in associates	**201,229**	203,863
Property and equipment	**1,634,358**	1,653,828
Deferred tax assets	**2,497,113**	2,237,505
Other assets	**7,719,402**	5,700,341
Total assets	**650,003,391**	701,913,589

6.2 Condensed Consolidated Statement of Financial Position (Continued)

As at June 30, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
LIABILITIES		
Borrowings from central bank	**12,020,000**	7,505,000
Deposits from banks and other financial institutions	**26,023,763**	77,036,368
Placements from banks	**21,972,708**	22,719,415
Financial assets sold under repurchase agreements	**35,367,960**	50,696,397
Due to customers	**336,328,832**	357,857,635
Income tax payable	**642,804**	635,060
Debt securities issued	**150,584,961**	118,688,315
Other liabilities	**21,066,091**	22,019,537
Total liabilities	**604,007,119**	657,157,727
EQUITY		
Share capital	**6,070,552**	6,070,552
Capital reserve	**10,731,130**	10,731,130
Investment revaluation reserve	**(210,675)**	(575,715)
Surplus reserve	**3,352,331**	3,352,331
General reserve	**9,122,584**	8,363,493
Retained earnings	**16,233,420**	16,141,662
Equity attributable to equity holders of the Bank	**45,299,342**	44,083,453
Non-controlling interests	**696,930**	672,409
Total equity	**45,996,272**	44,755,862
Total equity and liabilities	**650,003,391**	701,913,589

6.3 Condensed Consolidated Statement of Changes in Shareholders' Equity

For the six months ended June 30, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Attributable to equity holders of the Bank								
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
As at December 31, 2017 (Audited)	6,070,552	10,731,130	(575,715)	3,352,331	8,363,493	16,141,662	44,083,453	672,409	44,755,862
Adjustments of application of accounting policy changes	–	–	7,179	–	–	(896,924)	(889,745)	–	(889,745)
As at January 1, 2018	6,070,552	10,731,130	(568,536)	3,352,331	8,363,493	15,244,738	43,193,708	672,409	43,866,117
Profit for the period	–	–	–	–	–	2,840,472	2,840,472	24,521	2,864,993
Other comprehensive income for the period	–	–	357,861	–	–	–	357,861	–	357,861
Total comprehensive income for the period	–	–	357,861	–	–	2,840,472	3,198,333	24,521	3,222,854
Appropriation to general reserve	–	–	–	–	759,091	(759,091)	–	–	–
Dividend distribution	–	–	–	–	–	(1,092,699)	(1,092,699)	–	(1,092,699)
As at June 30, 2018 (Unaudited)	6,070,552	10,731,130	(210,675)	3,352,331	9,122,584	16,233,420	45,299,342	696,930	45,996,272
As at January 1, 2017 (Audited)	6,070,552	10,699,811	(215,644)	3,014,661	7,136,619	15,003,930	41,709,929	44,851	41,754,780
Profit for the period	–	–	–	–	–	2,615,997	2,615,997	5,557	2,621,554
Other comprehensive expense for the period	–	–	(150,651)	–	–	–	(150,651)	–	(150,651)
Total comprehensive (expense)/income for the period	–	–	(150,651)	–	–	2,615,997	2,465,346	5,557	2,470,903
Appropriation to general reserve	–	–	–	–	1,212,780	(1,212,780)	–	–	–
Dividend distribution	–	–	–	–	–	(1,214,110)	(1,214,110)	–	(1,214,110)
As at June 30, 2017 (Unaudited)	6,070,552	10,699,811	(366,295)	3,014,661	8,349,399	15,193,037	42,961,165	50,408	43,011,573

6.4 Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before tax	**3,636,565**	3,311,956
Adjustments for:		
Depreciation and amortization	**123,025**	112,787
Impairment losses, net of reversals	**748,950**	568,617
Share of results of associates	**2,634**	11,968
Interest income arising from debt instruments	**(8,239,029)**	(6,486,507)
Interest income arising from impaired financial assets	**(49,893)**	(40,308)
Interest expense arising from debt securities issued	**3,317,498**	1,361,102
Unrealised trading (gains)/losses from debt securities and derivative instruments	**(313,776)**	60,751
Net losses/(gains) arising from investment securities	**41,910**	(14,136)
Dividend income from investment securities	**–**	(5,000)
Operating cash flows before movements in working capital	**(732,116)**	(1,118,770)
Decrease in balances with central bank and deposits with banks and other financial institutions	**7,708,654**	3,712,787
Increase in placements with banks and other financial institutions	**(7,842,874)**	(5,708,753)
Decrease in financial assets held for trading	**5,720,098**	821,686
Increase in financial assets at fair value through profit or loss and derivatives	**(3,274,250)**	–
Decrease in financial assets held under resale agreements	**3,096,098**	8,651,065
Decrease/(increase) in loans and advances to customers	**5,490,389**	(8,110,859)
Increase in borrowings from central bank	**4,515,000**	1,500,000
Decrease in deposits from banks and other financial institutions	**(51,012,605)**	(35,769,966)
Decrease in placements from banks	**(746,708)**	(6,315,462)
(Decrease)/increase in financial assets sold under repurchase agreements	**(15,328,437)**	1,145,110
Decrease in due to customers	**(21,528,803)**	(10,899,603)
Increase in other operating assets	**(641,142)**	(957,352)
(Decrease)/increase in other operating liabilities	**(2,092,963)**	3,981,830
Cash used in operating activities	**(76,669,659)**	(49,068,287)
Income tax paid	**(843,807)**	(776,428)
Net cash used in operating activities	**(77,513,466)**	(49,844,715)

6.4 Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended June 30, 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Cash received from disposal and redemption of investment securities	**288,333,396**	539,674,390
Cash received from disposal of property and equipment and other assets	**417**	1,827
Cash paid for purchase of investment securities	**(247,158,011)**	(559,887,799)
Cash paid for purchase of property and equipment and other assets	**(88,591)**	(34,109)
Interest income received from investment securities	**6,860,436**	6,178,169
Dividend income received from investment securities	**–**	5,000
Net cash generated by/(used in) investing activities	**47,947,647**	(14,062,522)
FINANCING ACTIVITIES		
Cash received from debt securities issued	**181,971,709**	108,829,651
Repayment of debt securities issued	**(150,290,294)**	(62,591,366)
Interest expenses paid for debt securities issued	**(2,950,927)**	(961,384)
Dividends paid	**(319,754)**	(366,620)
Net cash generated by financing activities	**28,410,734**	44,910,281
Net decrease in cash and cash equivalents	**(1,155,085)**	(18,996,956)
Cash and cash equivalents at beginning of the period	**22,816,725**	52,231,121
Effect of foreign exchange rate changes	**74,173**	(82,883)
Cash and cash equivalents at end of the period	**21,735,813**	33,151,282
Net cash generated by operating activities include:		
Interest received	**8,598,804**	7,631,030
Interest paid	**(8,488,989)**	(7,343,225)
Net interest received from operating activities	**109,815**	287,805

7. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2017.

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as appropriate.

Other than changes in accounting polices resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June, 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December, 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are effective for the annual period beginning on or after 1 January 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 40	Transfers of Investment Property
Amendments to IAS 28	As part of the annual Improvements to IFRSs 2014-2016 Cycle

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

2.1.2 Summary of effects arising from initial application of IFRS 15

The application of IFRS 15 has had no material impact on the timing and amounts of revenue recognized in the reporting periods.

2.2 Impacts and changes in accounting policies of application on IFRS 9

In the current period, the Group has applied IFRS 9 which introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets and other items (for example, lease receivables and financial guarantee contracts).

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and investment revaluation reserve, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

2.2.1 *Key changes in accounting policies resulting from application of IFRS 9*

Classification and measurement of financial assets

Receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset provide that the cash flows generated on specified dates can only be payments for the principal and the interests accruing from the outstanding principal balance ("SPPI").

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model with the objective to collect contractual cash flows and sell financial assets; and

- the contractual terms of the financial asset provide that the cash flows generated on specified dates can only be payments for the principal and the interests accruing from the outstanding principal balance.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that the Group has irrevocably elected to designate the subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") at the date of initial application/initial recognition of a financial asset when that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments classified as at FVTOCI

For debt instruments classified as at FVTOCI, interest income is calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated and recognised in investment revaluation reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. They are subsequently measured at fair value with changes from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the it clearly represents, that dividends are a recovery of part of the cost of the investment. Dividends are included in the "other income, gains or losses" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any change in fair value recognised in profit or loss. Changes in fair value do not include dividends and interests, and are included in the "net trading gains/(losses)" line item in profit or loss statement.

The directors of the Bank reviewed and assessed the Group's financial assets at that date based on the facts and circumstances that existed as at 1 January 2018. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 including deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, debt instruments at fair value through other comprehensive income, loans and advances to customers, other financial assets at amortised cost, loan commitments and financial guarantee contracts. No impairment loss is recognised on equity investments.The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, ECL in 12 months ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with that as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if any) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Generally, the Group presumes that the credit risk of financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if 1) it has a low risk of default, 2) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and 3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, financial guarantee contracts and loan commitments, the Group recognises an impairment loss in profit or loss for all financial instruments. For investments in debt instruments receivables that are measured at FVTOCI, the loss is recognised in OCI and includes investment revaluation reserve without reducing carrying value of such debt instruments.

For financial guarantee contracts and loan commitments, the loss allowances are recognised at the higher of (1) the amount of the loss allowance determined in accordance with IFRS 9; and (2) the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the directors of the Bank reviewed and assessed the Group's existing financial assets, lease receivables, loan commitments and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

2.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Financial assets at FVTPL required by IAS 39/ IFRS 9 *RMB'000*	Available-for-sale financial assets ("AFS") *RMB'000*	Held-to-maturity *RMB'000*	Debt instruments at FVTOCI *RMB'000*	Amortised cost (previously classified as loans and receivables) *RMB'000*	Financial guarantee contracts/ other liabilities *RMB'000*	Deferred tax assets/ liabilities *RMB'000*	Investment revaluation reserve *RMB'000*	Retained earnings *RMB'000*	Non-controlling interests *RMB'000*
Closing balance at 31 December 2017 – IAS 39		5,720,098	36,270,946	49,123,275	–	543,631,267	379,323	2,237,505	(575,715)	16,141,662	672,409
Effect arising from initial application of IFRS 9:											
Reclassification											
From available-for-sale financial assets	*(a)*	3,361,638	(36,270,946)	–	32,909,308	–	–	–	6,303	(6,303)	–
Financial assets held for trading	*(b)*	–	–	–	–	–	–	–	–	–	–
From held-to-maturity	*(c)*	–	–	(49,123,275)	–	49,123,275	–	–	–	–	–
From investments classified as receivables	*(d)*	138,530,042	–	–	4,687,982	(143,218,024)	–	–	–	–	–
Remeasurement-											
Impairment under ECL model	*(e)*	–	–	–	–	(861,515)	264,361	281,470	20,781	(865,187)	–
From amortised cost to fair value	*(d)*	(33,911)	–	–	(26,540)	–	–	15,112	(19,905)	(25,434)	–
Opening balance at 1 January 2018		147,577,867	–	–	37,570,750	448,675,003	643,684	2,534,087	(568,536)	15,244,738	672,409

(a) Available-for-sale investments

From AFS investments to FVTPL

At the date of initial application of IFRS 9, the Group's equity investments of RMB59 million, at cost less impairment provision, were reclassified from AFS investments to financial assets at FVTPL. The carrying amount of these investments was approximate to their fair values and therefore no fair value gains or losses was recognised as at 1 January 2018.

From AFS investments to FVTPL

Bonds and funds with fair values of RMB199 million and RMB3,104 million were reclassified from AFS investments to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as payments requirement of principal and interest on the principal amount outstanding. Related fair value losses of RMB6 million were transferred from the AFS reserve to retained earnings as at 1 January 2018.

From AFS investments to FVTOCI

Bonds with a fair value of RMB32,909 million were reclassified from available-for-sale investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB34 million continued to accumulate in the investment revaluation reserve as at 1 January 2018.

(b) Financial assets held for trading

At the date of initial application, financial assets held for trading were reclassified to financial assets at FVTPL. There was no impact on the amounts recognised in relation to these assets from the application of IFRS 9.

(c) Held-to-maturity investments

Bonds previously classified as held-to-maturity investments are reclassified to financial assets at amortised cost and measured at amortised cost upon application of IFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying value and the revised carrying value at 1 January 2018.

(d) Investments classified as receivables

Financial assets previously classified as investments classified as receivables of RMB138,530 million are reclassified to financial assets at FVTPL upon the application of IFRS 9 because its cash flows do not represent solely payments of principal and interest on the principal amount outstanding. The related fair value losses of RMB25 million was adjusted to financial assets at FVTPL and retained profits as at 1 January 2018.

Debt instruments previously classified as investments classified as receivables of RMB4,688 million are reclassified to financial assets at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these financial assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. The related fair value losses of RMB20 million was adjusted to financial assets at FVTOCI and investment revaluation reserve as at 1 January 2018.

(e) Impairment under ECL model

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance should be based on the present value of the asset's expected cash flows using the asset's original effective interest rate ("EIR"), regardless of whether it is measured on an individual basis or a collective basis.

Loss allowances for other financial assets at amortised cost mainly comprise of deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers and debt instruments at amortised cost.

As at 1 January 2018, the additional credit loss allowance of RMB865 million has been recognised against retained earnings, after deducting the effect of deferred income tax. The additional loss allowance is charged against the respective asset or to increase provision for financial guarantee contracts.

3. Segment Analysis

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors and relevant management committees (chief operating decision maker) for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision maker reviews consolidated financial statements mainly based on operating segments for the purpose of allocating resources and performance assessment.

Measurement of segment assets and liabilities and segment income and result is based on the Group's accounting policies. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements.

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

The Group has no major customer which contributes to 10 percent or more of the Group's income. No geographical information is presented as most of the Group's operations are conducted and most of its non-current assets are located and therefore revenue is derived from activities in Tianjin Municipality of the PRC.

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Operating Segments

The Group provides a diversified range of banking and related financial services. The products and services offered to customers are organized into the following operating segments:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit takings and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The products and services include personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market or repurchase transactions, and debt instruments investment for its own accounts or on behalf of customers.

3. Segment Analysis – Continued

Others

Others include head office operations as well as items that are not attributed to the above segments.

Operating Segments

	Corporate banking	Personal banking	Treasury operations	Others	Total
Six months ended June 30, 2018					
External interest income	5,321,975	900,864	6,480,422	–	12,703,261
External interest expense	(3,915,941)	(1,019,261)	(5,802,122)	–	(10,737,324)
Inter-segment interest income/(expense)	1,839,311	778,248	(2,617,559)	–	–
Net interest income	3,245,345	659,851	(1,939,259)	–	1,965,937
Investment income	–	–	2,776,471	–	2,776,471
Fee and commission income	627,827	169,951	153,745	–	951,523
Fee and commission expense	(42,942)	(4,775)	(2)	–	(47,719)
Net fee and commission income	584,885	165,176	153,743	–	903,804
Net trading gains	–	–	294,359	–	294,359
Net gains arising from the derecognition of financial assets measured at amortised cost	–	–	36,202	–	36,202
Other income, gains or losses	–	–	(8,579)	(7,295)	(15,874)
Operating income	3,830,230	825,027	1,312,937	(7,295)	5,960,899
Operating expenses	(904,680)	(394,160)	(273,910)	–	(1,572,750)
Impairment losses,net of reversals	(956,515)	(23,342)	230,907	–	(748,950)
Share of losses of associates	–	–	–	(2,634)	(2,634)
Profit before tax	1,969,035	407,525	1,269,934	(9,929)	3,636,565
Income tax expense					(771,572)
Profit for the period					2,864,993
Depreciation and amortization	(78,925)	(17,100)	(27,000)	–	(123,025)
Capital expenditure	(36,770)	(26,696)	(2,825)	(22,300)	(88,591)
As at June 30, 2018					
Segment assets	201,560,499	38,041,609	409,275,911	1,125,372	650,003,391
Segment liabilities	(280,318,686)	(73,876,807)	(248,366,271)	(1,445,355)	(604,007,119)
Supplementary information					
Credit commitments	65,896,777	2,057,663	–	–	67,954,440

3. Segment Analysis – Continued

Operating Segments – Continued

	Corporate banking	Personal banking	Treasury operations	Others	Total
Six months ended June 30, 2017					
External interest income	4,400,039	889,237	7,991,018	–	13,280,294
External interest expense	(3,510,634)	(872,243)	(4,598,140)	–	(8,981,017)
Inter-segment interest income/(expense)	2,142,474	739,088	(2,881,562)	–	–
Net interest income	3,031,879	756,082	511,316	–	4,299,277
Fee and commission income	810,476	178,456	91,884	–	1,080,816
Fee and commission expense	(24,942)	(5,180)	(2)	–	(30,124)
Net fee and commission income	785,534	173,276	91,882	–	1,050,692
Net trading losses	–	–	(74,190)	–	(74,190)
Net gains arising from investment securities	–	–	14,136	–	14,136
Other income, gains or losses	–	–	(2,659)	3,817	1,158
Operating income	3,817,413	929,358	540,485	3,817	5,291,073
Operating expenses	(831,383)	(416,730)	(150,419)	–	(1,398,532)
Impairment losses, net of revesals	(234,973)	(156,674)	(176,970)	–	(568,617)
Share of losses of associates	–	–	–	(11,968)	(11,968)
Profit before tax	2,751,057	355,954	213,096	(8,151)	3,311,956
Income tax expense					(690,402)
Profit for the period					2,621,554
Depreciation and amortization	(81,508)	(19,724)	(11,555)	–	(112,787)
Capital expenditure	(20,603)	(11,060)	(2,446)	–	(34,109)
As at June 30, 2017					
Segment assets	186,959,151	32,234,129	440,490,146	200,519	659,883,945
Segment liabilities	(300,045,022)	(69,551,391)	(245,798,168)	(1,477,791)	(616,872,372)
Supplementary information					
Credit commitments	53,180,590	1,703,259	–	–	54,883,849

4. Net Interest Income

	Six months ended June 30,	
	2018	2017
Interest income:		
Loans and advances to customers, including:		
Corporate loans and advances	**4,962,236**	4,335,826
Personal loans and advances	**900,864**	889,237
Discounted bills	**90,757**	44,745
Finance lease	**286,554**	44,279
Balances with central bank	**413,284**	419,228
Deposits with banks and other financial institutions	**127,224**	312,132
Placements with banks and other financial institutions	**325,013**	326,187
Financial assets held under resale agreements	**134,771**	364,385
Investments, including:		
Bonds investment	**N/A**	1,891,231
Other investments classified as receivables*	**N/A**	4,653,044
Debt instruments at fair value through other comprehensive income	**978,138**	N/A
Debt instruments at amortised cost	**12,703,261**	N/A
Subtotal	**12,703,261**	13,280,294
Interest expense:		
Borrowings from central bank	**(165,415)**	(6,444)
Deposits from banks and other financial institutions	**(1,492,967)**	(2,025,574)
Placements from banks	**(319,838)**	(204,035)
Financial assets sold under repurchase agreements	**(506,403)**	(1,000,985)
Due to customers	**(4,935,203)**	(4,382,877)
Debt securities issued	**(3,317,498)**	(1,361,102)
Subtotal	**(10,737,324)**	(8,981,017)
Net interest income	**1,965,937**	4,299,277
Including: Interest income on impaired financial assets	**49,893**	40,308

* Other investments classified as receivables include trust beneficiary rights, wealth management products and asset management plans.

5. Investment Income

	Six months ended 30 June	
	2018	2017
Investment income of financial assets at fair value through profit or loss	**2,776,471**	–

Investment income includes income from trust beneficiary rights, wealth management products and asset management plans measured at FVTPL.

6. Net Fee and Commission Income

	Six months ended June 30,	
	2018	2017
Fee and commission income		
Wealth management service fees	**526,346**	672,417
Consultancy fees	**118,008**	108,224
Acceptance and guarantee commitment fees	**36,487**	100,884
Agency commissions and fiduciary service fees	**158,743**	100,448
Settlement and clearing fees	**91,081**	83,995
Bank card fees	**18,275**	11,991
Others	**2,583**	2,857
Subtotal	**951,523**	1,080,816

7. Other Income, Gains or Losses

	Six months ended June 30,	
	2018	2017
Dividend income	**–**	5,000
Government subsidies	**1,927**	533
Exchange differences	**(8,579)**	(2,659)
Rental income	**2,760**	1,428
Others	**(11,982)**	(3,144)
Total	**(15,874)**	1,158

8. Operating Expenses

	Note	Six months ended June 30, 2018	2017
Staff costs	*(1)*	**935,063**	932,025
Office expenses		**101,133**	58,100
Rental and property management expenses		**212,642**	148,645
Other general and administrative expenses		**140,637**	97,651
Sundry taxes		**60,250**	49,215
Depreciation		**72,916**	71,271
Amortization		**50,109**	41,516
Others		**–**	109
Total		**1,572,750**	1,398,532

Note:

(1) Staff costs

	Six months ended June 30, 2018	2017
Salaries, bonuses and allowances	**661,621**	701,609
Social insurance	**129,491**	98,507
Housing funds	**56,871**	44,513
Staff welfare	**24,767**	11,324
Labor union fees and staff education expenses	**17,002**	15,208
Contribution to annuity funds	**45,311**	60,864
Total	**935,063**	932,025

9. Impairment Losses

	Six months ended June 30, 2018	2017
Loans and advances to customers	**1,448,978**	472,488
Deposits with banks and other financial institutions	**(773)**	–
Placements with banks and other financial institutions	**(2,152)**	–
Financial assets held under resale agreements	**(592)**	(39,250)
Investments classified as receivables	**N/A**	216,221
Debt instruments at amortised cost	**(578,390)**	N/A
Financial assets at fair value through other comprehensive income	**7,000**	N/A
Off-balance sheet credit commitments	**(125,121)**	(80,842)
Total	**748,950**	568,617

10. Income Tax Expense

	Six months ended June 30, 2018	2017
Income tax expense comprises:		
Current income tax	**851,551**	799,677
Deferred tax	**(79,979)**	(109,275)
Total	**771,572**	690,402

Current PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profit during the period.

The tax charge for the period can be reconciled to profit before tax per the consolidated statement of profit or loss as follows:

	Six months ended June 30, 2018	2017
Profit before tax	**3,636,565**	3,311,956
Tax calculated at applicable statutory tax rate of 25%	**909,141**	827,989
Underprovision of tax in prior years	**11,963**	3,687
Tax effect of expenses not deductible for tax purpose	**437**	15,189
Tax effect of income not taxable for tax purpose(1)	**(149,969)**	(156,463)
Income tax expense	**771,572**	690,402

Note:

(1) The income not taxable for tax purpose mainly represents interest income arising from government bonds, which is income tax free in accordance with the PRC tax regulations.

11. Earnings Per Share

The calculation of basic and diluted earnings per share attributable to owners of the Bank is as follows:

	Six months ended June 30, 2018	2017
Profit for the period attributable to equity holders of the Bank for the purpose of basic and diluted earnings per share	**2,840,472**	2,615,997
Weighted average number of shares in issue for the purpose of basic and diluted earnings per share (in thousand)	**6,070,552**	6,070,552
Basic earnings per share (RMB Yuan)	**0.47**	0.43

No diluted earning per share has been presented for the six month ended 30 June 2018 and 2017 as the Group had no potential ordinary shares in issue during the periods.

12. Dividends

	Note	**Six months ended June 30, 2018**	2017
2016 Final Dividend	*(1)*	**–**	1,214,110
2017 Final Dividend	*(2)*	**1,092,699**	–

Notes:

(1) A final dividend of RMB20 cents per share (tax inclusive) in respect of the year ended December 31, 2016 amounting in a total of RMB1,214 million was proposed by the board of directors and approved by the 2016 annual general meeting on 12 May, 2017.

(2) A final dividend of RMB18 cents per share (tax inclusive) in respect of the year ended 31 December, 2017 amounting in a total of RMB1,093 million was proposed by the board of directors and approved by the 2017 annual general meeting on 11 May, 2018.

13. Contingent Liabilities and Commitments

Legal proceedings

The Bank and its subsidiaries, as defendants, are involved in certain lawsuits arising from its normal business operations. As at June 30, 2018, the Group has assessed and measured the impact of those significant pending lawsuits and recognized reasonable amount of provisions.

Capital commitments

	As at June 30, 2018	As at December 31, 2017
Contracted but not provided for – commitments for the acquisition of property and equipment	**275,573**	156,338

Operating lease commitments

At the end of the period/year, the Group had the following non-cancellable operating lease commitments as lessee with fixed lease term and lease payment:

	As at June 30, 2018	As at December 31, 2017
Within 1 year	**305,368**	297,903
1 to 5 years	**772,109**	755,848
Over 5 years	**260,899**	318,895
Total	**1,338,376**	1,372,646

14. Contingent Liabilities and Commitments – Continued

Credit commitments

	As at June 30, 2018	As at December 31, 2017
Acceptances	**27,807,742**	29,021,385
Undrawn credit card limit	**2,057,663**	1,799,981
Letters of credit issued	**8,322,393**	8,557,033
Letters of guarantee	**3,598,928**	6,272,432
Undrawn corporate loans limit	**26,087,714**	19,779,377
Corporate loans credit commitments	**80,000**	80,000
Total	**67,954,440**	65,510,208

Credit commitments represent general facility limits granted to customers. These credit facilities may be drawn in the form of loans and advances or through the issuance of letters of credit, acceptances or letters of guarantee.

Redemption commitments of government bond

The Group is authorized by the Ministry of Finance to underwrite certificate government bonds and e-saving bonds. The investors of these bonds can redeem before maturity date and the Group has the obligation to pay the principal and related interests to investors.

As at June 30, 2018, the principal balance of certificate government bonds which the Group had the obligation to pay in advance amounted to RMB2,173 million (December 31, 2017: RMB2,144 million), and the principal balance of e-saving bonds amounted to RMB2,347 million (December 31, 2017: RMB2,371 million). The original term of these bonds is from 1 to 5 years.

The Ministry of Finance does not pay the principal and interest of the certificate government bonds before the expiry date, but pays the principal and interest of the e-savings bonds on a regular basis based on the Bank's demand.

8. PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement was published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.bankoftianjin.com). The 2018 interim report prepared in accordance with the IFRSs will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.bankoftianjin.com), and will be despatched to the holders of H shares of the Bank in due course.

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

By Order of the Board
Bank of Tianjin Co., Ltd.
LI Zongtang
Chairman

Tianjin, China
August 24, 2018

As at the date of this announcement, the board of directors of the Bank comprises Mr. LI Zongtang, Mr. SUN Liguo, Ms. ZHANG Furong and Mr. LIANG Jianfa, as executive directors; Ms. SUN Jingyu, Mr. WU Tao, Mr. Alistair Marshall Bulloch, Mr. ZHAO Wei, Mr. XIAO Jingxi and Ms. LI Jun as non-executive directors; Mr. FENG Heping, Mr. LAW Yee Kwan, Quinn, Mr. JIN Qingjun, Mr. HUA Yaogang and Mr. He Jia as independent non-executive directors.

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