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Guangzhou Rural Commercial Bank Co., Ltd.*

廣州農村商業銀行股份有限公司*

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

(Stock code: 1551)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board of directors (the “**Board**”) of Guangzhou Rural Commercial Bank Co., Ltd.* (the “**Bank**”) is pleased to announce the unaudited condensed consolidated interim results of the Bank and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018 (the “**Interim Results**”). This announcement contains the full text of the interim report of the Group for the six months ended 30 June 2018 and the contents were prepared in accordance with the relevant disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and the International Financial Reporting Standards. The Interim Results have also been reviewed by the Board and the audit committee of the Board.

This results announcement is published on the websites of the Bank (www.grcbank.com) and the Hong Kong Stock Exchange (www.hkexnews.hk). The interim report of the Bank for the six months ended 30 June 2018 will be dispatched to shareholders of the Bank and will also be available at the abovementioned websites in due course.

By Order of the Board
Guangzhou Rural Commercial Bank Co., Ltd.*
Wang Jikang
Chairman

Guangzhou, the PRC, August 24, 2018

As at the date of this announcement, the Board comprises two executive directors, namely Mr. Wang Jikang and Mr. Yi Xuefei; seven non-executive directors, namely, Mr. Li Fangjin, Mr. Zheng Shuping, Mr. Su Zhigang, Mr. Shao Jianming, Mr. Zhang Yongming, Mr. Liu Guojie and Mr. Zhu Kelin; and five independent non-executive directors, namely, Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond.

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

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COMPANY PROFILE

(I) OFFICIAL NAME

1. Official Chinese Name: 廣州農村商業銀行股份有限公司
(Abbreviated as “廣州農村商業銀行”)
2. Official English Name: Guangzhou Rural Commercial Bank Co., Ltd.
(Abbreviated as “GRCB”)

(II) Registered Capital: RMB9,808,268,539.00

(III) Legal Representative: Mr. Wang Jikang

(IV) Authorized Representatives: Mr. Wang Jikang and Mr. Ngai Wai Fung

(V) Joint Company Secretaries: Ms. Zheng Ying and Mr. Ngai Wai Fung

(VI) H-Share Listing Stock Exchange: The Stock Exchange of Hong Kong Limited

(VII) Stock Name and Code: GRCB (1551.HK)

(VIII) Registered Address: No. 9 Yingri Road, Huangpu District, Guangzhou, PRC

(IX) Principal Place of Business in Hong Kong: 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

(X) Scope of Business: Monetary and financial services

(XI) Contact Address: No. 1 Huaxia Road, Pearl River New Town, Tianhe District, Guangzhou, Guangdong Province, PRC

Postal Code: 510623

Website: www.grcbank.com

(XII) Place of Inspection of the Interim Report: Office of the Board of Directors of the Bank

(XIII) Auditor: Ernst & Young

(XIV) Legal Advisor as to the Hong Kong Law: King & Wood Mallesons

(XV) H Share Registrar: Computershare Hong Kong Investor Services Limited

(XVI) Domestic Shares Depository: China Securities Depository and Clearing Corporation Limited

(XVII) Other Relevant Information of the Company

Date of Registration: December 9, 2009

Registration Authority: Guangzhou Administration for Industry and Commerce

Unified Social Credit Code: 914401017083429628

Financial License Registration No.: B1048H244010001

Customer Service and Complaint Telephone No.: +8695313

Investor Relations Management Telephone No.: +86 (020)28019324

Email Address: ir@grcbank.com

MAJOR HONORS RECEIVED IN THE FIRST HALF OF 2018

No.	Honors	Awarding/granting authority	Obtaining time
1	The Most Popular New Stock Company among Investors at the Golden Hong Kong Stocks Award 2017 (2017年金港股最受投資者歡迎新股公司)	Zhitong Finance (智通財經) and Tonghuashun Finance (同花順財經)	January 2018
2	Ranked 179th in the list of the "Top 500 World Bank Brands in 2017" ("2017全球銀行品牌500強") and ranked second among all rural commercial banks in the list.	The Banker	March 2018
3	Obtained the long-term credit rating: Baa2 Investment Grade, the first credit rating issued to us	Moody's	April 2018
4	"Junding Prize for Investment Banking of Rural Commercial Banks in China in 2018" ("2018中國區農商行投行君鼎獎")	Securities Times (《證券時報》)	April 2018
5	Obtained the long-term credit rating: BBB-Investment Grade, the first credit rating issued to us	S&P	May 2018
6	"Best Financial Innovation Award" ("最佳金融創新獎")	The Banker (China) and the Institute of Finance and Banking (IFB), Chinese Academy of Social Sciences (CASS)	June 2018
7	Entered the list of "Forbes Global 2000" for the first time, with its overall ranking at 1092nd place and ranking at 325th place in terms of total assets	Forbes	June 2018
8	Award for Top 100 Excellent Financial Enterprises in Guangdong (廣東金融百優獎) – "Award for Top 10 Excellent Banking and Insurance Institutions" ("十優銀行保險業機構獎"), with the ranking at 4th place	Guangdong Financial Think Tank Association (廣東省金融智庫聯合會), Nanfang Daily Media Group (南方報業傳媒集團) and the Office of the Organizing Committee of China International Finance Expo (中國國際金融交易博覽會組委會辦公室)	June 2018
9	"Prize for Excellent Inclusive Financial Institution in Rural Finance in China" ("全國農村金融優秀普惠金融機構獎")	China Cooperation Times (《中華合作時報社》)	June 2018
10	"Platinum Award for Charity Works" ("公益榮譽獎") granted by The Community Chest	The Community Chest	June 2018

SUMMARY OF FINANCIAL DATA

The financial information set forth in this interim report is prepared on a consolidated basis in accordance with the IFRS and expressed in Renminbi unless otherwise stated.

Item (Expressed in RMB million, unless otherwise stated)	For the six months ended		Change in amount	Rate of change (%)
	June 30,			
	2018	2017		
Operating results				
Net interest income	5,589.18	6,050.96	(461.78)	(7.63)
Net fee and commission income	965.95	1,064.71	(98.76)	(9.28)
Operating income	8,175.24	6,241.83	1,933.41	30.98
Profit before tax	4,333.37	3,414.66	918.71	26.90
Net profit	3,391.34	2,639.28	752.06	28.49
Net profit attributable to equity holders of the Bank	3,321.64	2,622.06	699.58	26.68
Basic earnings per share (Expressed in RMB per share)	0.34	0.32	0.02	6.25

Item (Expressed in RMB million, unless otherwise stated)	As at June 30, 2018	As at December 31, 2017	Change in amount	Rate of change (%)
Scale indicators				
Total assets	753,636.30	735,713.66	17,922.64	2.44
Among which: loans and advances to customers, net	336,034.79	285,701.70	50,333.09	17.62
Total liabilities	702,630.71	687,235.94	15,394.77	2.24
Among which: amounts due to customers	493,415.09	488,671.86	4,743.23	0.97
Equity attributable to equity holders of the Bank	48,542.77	46,044.52	2,498.25	5.43
Non-controlling interests	2,462.82	2,433.20	29.62	1.22
Total equity	51,005.59	48,477.72	2,527.87	5.21

	For the six months ended June 30,		
Item (Expressed in percentage)	2018	2017	Change
Profitability indicators			
Return on average total assets ⁽¹⁾	0.91	0.79	0.12
Return on average equity ⁽²⁾	13.64	12.84	0.80
Net interest spread ⁽³⁾	2.03	1.68	0.35
Net interest margin ⁽⁴⁾	1.84	1.73	0.11
Net fee and commission income to operating income ⁽⁵⁾	11.82	17.06	(5.24)
Cost-to-income ratio ⁽⁶⁾	33.64	36.20	(2.56)

SUMMARY OF FINANCIAL DATA

Item (Expressed in percentage)	As at June 30, 2018	As at December 31, 2017	Change
Asset quality indicators			
Non-performing loan ratio ⁽⁷⁾	1.41	1.51	(0.10)
Provision coverage ratio ⁽⁸⁾	199.78	186.75	13.03
Allowance to total loans ⁽⁹⁾	2.82	2.83	(0.01)

Item (Expressed in percentage)	As at June 30, 2018	As at December 31, 2017	Change
Capital adequacy indicators⁽¹⁰⁾			
Core Tier 1 capital adequacy ratio	10.46	10.69	(0.23)
Tier 1 capital adequacy ratio	10.49	10.72	(0.23)
Capital adequacy ratio	13.81	12.00	1.81

Item (Expressed in percentage)	As at June 30, 2018	As at December 31, 2017	Change
Other indicators			
Loan-to-deposit ratio ⁽¹¹⁾	70.07	60.17	9.90

Notes:

- (1) Representing the net profit for the period (including profit attributable to non-controlling interests) as a percentage of the average balance of total assets as at the beginning and end of the period.
- (2) As calculated by dividing the net profit for the period by the average balance of total equity as at the beginning and 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) As calculated by dividing net interest income by the average daily balance of total interest-earning assets.



SUMMARY OF FINANCIAL DATA

- (5) As calculated by dividing net fee and commission income by operating income.
- (6) Cost-to-income ratio: As calculated by dividing operating expenses (excluding tax and surcharges) by operating income.
- (7) Non-performing loan ratio: As calculated by dividing the balance of non-performing loans by the total loans and advances to customers.
- (8) Provision coverage ratio: As calculated by dividing the balance of allowance for loan losses by the balance of non-performing loans.
- (9) Allowance to total loans: As calculated by dividing the balance of allowance for loan losses by the total loans and advances to customers.
- (10) Calculated in accordance with the "Administrative Measures for the Capital of Commercial Banks (Provisional)" promulgated by CBRC.

Core Tier 1 capital adequacy ratio = (core Tier 1 capital – reductions from respective capital)/risk-weighted assets*100%

Tier 1 capital adequacy ratio = (Tier 1 capital – reductions from respective capital)/risk-weighted assets*100%

Capital adequacy ratio = (total capital – reductions from respective capital)/risk-weighted assets*100%

- (11) Loan-to-deposit ratio = total loans to customers/total deposits of customers*100%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW FOR THE FIRST HALF OF 2018

I. INCOME STATEMENT ANALYSIS

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018	For the six months ended June 30, 2017	Change in amount	Rate of change (%)
Interest income	13,839.61	14,943.99	(1,104.38)	(7.39)
Interest expense	(8,250.43)	(8,893.03)	642.60	(7.23)
Net interest income	5,589.18	6,050.96	(461.78)	(7.63)
Fee and commission income	1,061.17	1,170.59	(109.42)	(9.35)
Fee and commission expense	(95.22)	(105.88)	10.66	(10.07)
Net fee and commission income	965.95	1,064.71	(98.76)	(9.28)
Net trading income	2,570.85	483.17	2,087.68	432.08
Net gains or losses on financial investments	(1,041.12)	(1,336.35)	295.23	(22.09)
Other operating income, net	90.38	(20.66)	111.04	(537.46)
Operating income	8,175.24	6,241.83	1,933.41	30.98
Operating expenses	(2,841.51)	(2,339.15)	(502.36)	21.48
Impairment losses on assets	(1,000.36)	(488.02)	(512.34)	104.98
Loans and advances	(1,010.50)	(518.95)	(491.55)	94.72
Others	10.14	30.93	(20.79)	(67.22)
Profit before tax	4,333.37	3,414.66	918.71	26.90
Income tax expense	(942.03)	(775.38)	(166.65)	21.49
Net profit	3,391.34	2,639.28	752.06	28.49

In the first half of 2018, the Group recorded a profit before tax of RMB4,333 million, representing a year-on-year increase of 26.90% and a net profit of RMB3,391 million, representing a year-on-year increase of 28.49%, profit before tax and net profit increased steadily, primarily due to the increase of net trading income.

(I) Net Interest Income

In the first half of 2018, the net interest income of the Group amounted to RMB5,589 million, representing a year-on-year decrease of RMB462 million, or 7.63%, and accounting for 68.37% of the total operating income, among which, interest income from loans and advances to customers increased significantly, but interest income from financial investments decreased more than the increase of interest income from loans and advances to customers, which resulted in a decrease of overall net interest income.

The following table sets forth interest income, interest expense and net interest income of the Group for the periods indicated:

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018	For the six months ended June 30, 2017	Change in amount	Rate of change (%)
Interest income	13,839.61	14,943.99	(1,104.38)	(7.39)
Interest expense	(8,250.43)	(8,893.03)	642.60	(7.23)
Net interest income	5,589.18	6,050.96	(461.78)	(7.63)

MANAGEMENT DISCUSSION AND ANALYSIS

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Average balance	Interest income/ expense	Average yield/cost rate (%)	Average balance	Interest income/ expense	Average yield/cost rate (%)
Loans and advances to customers	313,414.03	9,089.81	5.80	267,427.20	7,055.19	5.28
Financial investments	143,132.26	2,844.29	3.97	300,094.35	6,259.17	4.17
Deposits and placements with banks and other financial institutions	24,617.62	404.41	3.29	23,007.77	436.09	3.79
Financial assets held under resale agreements	52,806.82	950.33	3.60	38,351.96	674.89	3.52
Deposits with central bank	72,283.64	550.77	1.52	69,067.57	518.65	1.50
Total interest-earning assets	606,254.37	13,839.61	4.57	697,948.85	14,943.99	4.28
Amounts due to customers	469,237.06	4,434.39	1.89	442,095.40	4,354.72	1.97
Placements and deposits from banks and other financial institutions	61,341.60	1,219.01	3.97	100,975.65	1,818.03	3.60
Financial assets sold under repurchase agreements	20,300.81	290.71	2.86	22,506.15	308.86	2.74
Debt securities issued	98,728.76	2,291.48	4.64	119,149.90	2,402.14	4.03
Others	1,310.46	14.84	2.26	655.34	9.28	2.83
Total interest-bearing liabilities	650,918.69	8,250.43	2.54	685,382.44	8,893.03	2.60
Net interest income		5,589.18			6,050.96	
Net interest spread			2.03			1.68
Net interest margin			1.84			1.73

In the first half of 2018, as compared to the corresponding period of last year, the overall average yield on interest-earning assets increased by 29 basis points to 4.57%, the overall average cost rate of interest-bearing liabilities decreased by 6 basis points to 2.54%, net interest spread increased by 35 basis points to 2.03%, and net interest margin increased by 11 basis points to 1.84%.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth changes in the Group's interest income and interest expense as compared to the corresponding period of last year due to changes in volume and interest rate. Changes in volume are measured by movement of the average balance, while changes in interest rate are measured by the movement of the average interest rate:

(Expressed in RMB million, unless otherwise stated)	Increase/(decrease) due to changes in the following item		Net increase/ decrease
	Volume factor	Rate factor	
Assets			
Loans and advances to customers	1,213.20	821.40	2,034.60
Financial investments	(3,273.80)	(141.10)	(3,414.90)
Deposits and placements with banks and other financial institutions	30.50	(62.20)	(31.70)
Financial assets held under resale agreements	254.40	21.10	275.50
Deposits with central bank	24.20	8.00	32.20
Change in interest income	(1,751.50)	647.20	(1,104.30)
Liabilities			
Amounts due to customers	267.40	(187.70)	79.70
Placements and deposits from banks and other financial institutions	(713.60)	114.60	(599.00)
Financial assets sold under repurchase agreements	(30.30)	12.10	(18.20)
Debt securities issued	(411.70)	301.00	(110.70)
Others	9.30	(3.70)	5.60
Change in interest expense	(878.90)	236.30	(642.60)

MANAGEMENT DISCUSSION AND ANALYSIS

1. Interest income

In the first half of 2018, Our Group achieved interest income of RMB13.840 billion, representing a decrease of RMB1.104 billion or 7.39% as compared to the corresponding Period.

(1) INTEREST INCOME FROM LOANS AND ADVANCES TO CUSTOMERS

The average balance, interest income and average yield for each component of loans and advances to customers of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Average balance	Interest income	Annualized average yield (%)	Average balance	Interest income	Annualized average yield (%)
Corporate loans	207,614.59	6,269.89	6.04	165,924.05	4,526.77	5.50
Personal loans	97,533.31	2,615.78	5.36	84,092.09	2,255.91	5.37
Discounted bills	8,266.13	204.14	4.94	17,411.06	272.51	3.13
Total loans to customers	313,414.03	9,089.81	5.80	267,427.20	7,055.19	5.28

Interest income from loans and advances to customers amounted to RMB9,090 million, representing a year-on-year increase of RMB2,035 million or 28.84%. The average yield increased by 52 basis points to 5.80% as compared with last year, mainly due to increased overall yield on loans driven by continuous rise of interest rates of loans to public bodies and discounted bills.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) INTEREST INCOME FROM AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The average balance, interest income and average yield for each component of amounts due from banks and other financial institutions of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Average balance	Interest income	Annualized average cost rate (%)	Average balance	Interest income	Annualized average cost rate (%)
Deposits and placements with banks and other financial institutions	24,617.62	404.41	3.29	23,007.77	436.09	3.79
Financial assets held under resale agreements	52,806.82	950.33	3.60	38,351.96	674.89	3.52
Total amounts due from banks and other financial institutions	77,424.44	1,354.74	3.50	61,359.73	1,110.98	3.62

In the first half of 2018, the interest income from financial assets held under resale agreements of the Group amounted to RMB950 million, representing a year-on-year increase of RMB275 million or 40.81%, primarily due to the change in interbank asset structure, resulting in a higher proportion of financial assets held under resale agreements as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Interest expense

In the first half of 2018, the Group's interest expense amounted to RMB8,250 million, which decreased by RMB643 million or 7.23% as compared to the corresponding period of last year.

(1) INTEREST EXPENSE ON AMOUNTS DUE TO CUSTOMERS

The average balance, interest expense and average cost rate for each component of amounts due to customers of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Average balance	Interest expense	Annualized average cost rate (%)	Average balance	Interest expense	Annualized average cost rate (%)
Corporate deposits						
Demand	96,846.35	224.54	0.46	86,025.81	220.96	0.52
Time	105,737.08	1,733.15	3.28	87,368.81	1,527.76	3.53
Subtotal	202,583.43	1,957.69	1.93	173,394.62	1,748.72	2.03
Personal deposits						
Demand	91,653.18	143.61	0.31	83,099.41	128.73	0.31
Time	119,217.59	1,416.69	2.38	126,390.08	1,646.66	2.63
Subtotal	210,870.77	1,560.30	1.48	209,489.49	1,775.39	1.71
Other deposits	55,782.86	916.40	3.29	59,211.29	830.61	2.81
Due to Customers	469,237.06	4,434.39	1.89	442,095.40	4,354.72	1.97

In the first half of 2018, the Group's interest expense on amounts due to customers amounted to RMB4,434 million, representing a year-on-year increase of RMB80 million or 1.83%. In the first half of 2018, the cost rate of deposits was 1.89%, which decreased by 8 basis points as compared to the corresponding period of last year, mainly due to a decrease in interest costs on time deposits, which represents a higher proportion, as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) INTEREST EXPENSE ON AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Average balance	Interest expense	Annualized average cost rate (%)	Average balance	Interest expense	Annualized average cost rate (%)
Placements and deposits from banks and other financial institutions	61,341.60	1,219.01	3.97	100,975.65	1,818.03	3.60
Financial assets sold under repurchase agreements	20,300.81	290.71	2.86	22,506.15	308.86	2.74
Total amounts due to banks and other financial institutions	81,642.41	1,509.72	3.70	123,481.80	2,126.89	3.44

In the first half of 2018, the Group's interest expense on placements and deposits from banks and other financial institutions amounted to RMB1,219 million, representing a year-on-year decrease of RMB599 million or 32.95%, which was primarily due to the change in interbank asset structure, resulting in a lower proportion of placements and deposits from banks and other financial institutions as compared to the corresponding period of last year.

3. Net Interest Spread and Net Interest Margin

In the first half of 2018, net interest spread increased by 0.35 percentage points to 2.03% as compared to the corresponding period of last year, and net interest margin increased by 0.11 percentage points to 1.84% as compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Non-interest Income

1. Fee and commission income

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018	For the six months ended June 30, 2017	Change in amount	Rate of change (%)
Fee and commission income:				
Fee income from advisory and consulting business	263.80	409.95	(146.15)	(35.65)
Fee income from settlement and electronic channel business	60.85	61.06	(0.21)	(0.34)
Fee income from agency and custodian business	205.79	210.58	(4.79)	(2.27)
Fee income from bank card business	296.66	223.42	73.24	32.78
Fee income from wealth management products	82.58	127.86	(45.28)	(35.41)
Financial leasing fee income	53.93	55.40	(1.47)	(2.65)
Fee income from foreign exchange business	48.68	24.16	24.52	101.49
Others	48.88	58.16	(9.28)	(15.96)
Subtotal	1,061.17	1,170.59	(109.42)	(9.35)
Fee and commission expense:				
Fee expense on settlement and electronic channel business	(10.49)	(8.31)	(2.18)	26.23
Fee expense on bank card business	(15.99)	(13.60)	(2.39)	17.57
Others	(68.74)	(83.97)	15.23	(18.14)
Subtotal	(95.22)	(105.88)	10.66	(10.07)
Net fee and commission income	965.95	1,064.71	(98.76)	(9.28)

In the first half of 2018, the net fee and commission income of the Group amounted to RMB966 million, representing a year-on-year decrease of RMB99 million or 9.28%, which was mainly due to the decrease in fee from advisory and consulting business.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Net trading income*

In the first half of 2018, the net trading income of the Group amounted to RMB2,571 million, representing a year-on-year increase of RMB2,088 million, which was primarily attributable to the requirements of new financial instrument standard led to a significant increase in the net income of the current transaction as a result of a significant increase as classifying the current financial instruments as Financial assets at fair value through profit or loss.

3. *Net gain on financial investments*

In the first half of 2018, the net losses on financial investments of the Group amounted to RMB1,041 million, mainly due to the net losses on derecognition from financial assets amounted to RMB1.043 billion.

4. *Other operating net income*

In the first half of 2018, other operating income of the Group amounted to RMB90 million, among which, foreign exchange net gain amounted to RMB74 million.

(III) *Operating Expenses*

In the first half of 2018, operating expenses of the Group increased by RMB502 million or 21.48% to RMB2,842 million as compared to the corresponding period of last year.

The following table sets forth the principal components of operating expenses of the Group for the periods indicated.

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018	For the six months ended June 30, 2017	Change in amount	Rate of change (%)
Staff costs	1,810.23	1,369.26	440.97	32.20
Tax and surcharges	91.71	79.63	12.08	15.17
Depreciation and amortization	265.45	250.13	15.32	6.12
Others	674.12	640.13	33.99	5.31
Total operating expenses	2,841.51	2,339.15	502.36	21.48

MANAGEMENT DISCUSSION AND ANALYSIS

1. Staff costs

Staff costs are the largest component of operating expenses of the Group, accounting for 63.71% and 58.54% of our operating expenses for the first half of 2018 and the first half of 2017, respectively.

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

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018	For the six months ended June 30, 2017	Change in amount	Rate of change (%)
Salaries, bonuses and allowances	1,326.31	907.97	418.34	46.07
Welfare, social insurance and housing provident fund	238.55	227.50	11.05	4.86
Others	245.37	233.79	11.58	4.95
Total staff costs	1,810.23	1,369.26	440.97	32.20

In the first half of 2018, staff costs of the Group amounted to RMB1,810 million, representing a year-on-year increase of RMB441 million or 32.20%, which was primarily attributable to an increase in employee's salaries and performance as a result of business growth and improvement in efficiency.

2. Tax and surcharges

In the first half of 2018, the tax and surcharges incurred amounted to RMB92 million, representing a year-on-year increase of RMB12 million or 15.17%, which was primarily attributable to the increase in the value-added tax paid for the year led to an increase in urban maintenance and construction fees and education surcharges.

3. Depreciation and amortization

In the first half of 2018, depreciation and amortization of the Group was RMB265 million, representing a year-on-year increase of RMB15 million or 6.12%.

4. Others

In the first half of 2018, other expenses amounted to RMB674 million, representing a year-on-year increase of RMB34 million or 5.31%, which was primarily due to an increase of general and administrative expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Impairment Losses on Assets

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

(Expressed in RMB million, unless otherwise stated)	For the six months ended June 30, 2018	For the six months ended June 30, 2017	Change in amount	Rate of change (%)
Impairment losses on loans and advances to customers	1,010.50	518.95	491.55	94.72
Other assets	(10.14)	(30.93)	20.79	(67.22)
Total	1,000.36	488.02	512.34	104.98

In the first half of 2018, the provisions for impairment losses on assets made by the Group amounted to RMB1,000 million, representing a year-on-year increase of RMB512 million or 104.98%. Among which, provisions for impairment losses on loans and advances to customers amounted to RMB1,011 million, representing a year-on-year increase of RMB492 million or 94.72%, which was primarily due to the decrease in provision for impairment loss as a result of the replenishment of the "Thunder Collection" (雷霆清收) project last year and the increase in provisions for impairment losses under the influence of the growth in the scale of loans and the new financial instrument accounting standards for the year.

(V) Income Tax Expense

In the first half of 2018, income tax expense amounted to RMB942 million, representing a year-on-year increase of RMB167 million, mainly due to an increase in income tax expense driven by the growth in operating profit in the first half of the year. The effective income tax rate was 21.74%.

MANAGEMENT DISCUSSION AND ANALYSIS

II. ANALYSIS ON STATEMENT OF FINANCIAL POSITION

(I) Assets

The following table sets forth the composition of the Group's total assets as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total loans and advances to customers	345,733.94	45.88	294,013.27	39.96
Allowances for impairment losses	(9,699.15)	(1.29)	(8,311.57)	(1.13)
Loans and advances to customers, net	336,034.79	44.59	285,701.70	38.83
Net financial investments	142,411.07	18.90	219,698.88	29.86
Cash and deposits with the central bank	82,431.91	10.94	103,767.44	14.10
Financial assets at fair value through profit or loss	104,111.07	13.81	15,270.18	2.08
Deposits with banks and other financial institutions	10,624.96	1.41	14,443.63	1.96
Placements with banks and other financial institutions	14,429.97	1.91	6,606.54	0.90
Reverse repurchase agreements	49,913.99	6.62	76,393.40	10.38
Other assets	13,678.54	1.82	13,831.89	1.88
Total assets	753,636.30	100.00	735,713.66	100.00

Notes:

- (1) Financial assets consist of financial assets at fair value through other comprehensive income and financial assets at amortized cost.
- (2) Other assets consist of interest receivables, goodwill, property and equipment, deferred tax assets, debt assets and accounts receivable and accounts payable.

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2018, the Group's total assets amounted to RMB753,636 million, representing an increase of RMB17,923 million or 2.44% as compared to the end of last year. Among which, total loans and advances to customers increased by RMB51,721 million or 17.59% as compared to the end of last year. This was primarily due to the fact that the real economy showed a strong credit demand, which led to a rapid growth in the scale of loans in the first half of the year.

Financial investments decreased by RMB77,288 million or 35.18% as compared to the end of last year, primarily due to the reclassification of financial assets based on IFRS 9 such that certain investments in receivables were reclassified into financial assets at fair value through profit or loss.

Cash and deposits with the central bank decreased by RMB21,336 million or 20.56%, primarily due to two rates cut by the central bank in the first half of the year decreasing the statutory deposit reserve ratio by 1.5 percentage points as compared to the end of last year.

Gross amount of deposits and placements with banks and other financial institutions increased by RMB4,005 million or 19.02% as compared to the end of last year, primarily because the scale of placement with banks increased.

Financial assets held under resale agreements decreased by RMB26,479 million or 34.66% as compared to the end of last year. This was mainly due to proactive decreasing of reverse repurchase agreements in light of the Notice of the People's Bank of China, the China Banking Regulatory Commission, the China Securities Regulatory Commission and the China Insurance Regulatory Commission on Regulating the Bond Transactions of Bond Market Participants (No. 302 [2017] of People's Bank of China) (《中國人民銀行、銀監會、證監會、保監會關於規範債券市場參與者債券交易業務的通知》(銀發[2017]302號)) from early in the year.

1. Loans and advances to customers

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate loans	232,688.70	67.30	192,541.48	65.49
Personal loans	101,605.06	29.39	96,252.40	32.74
Discounted bills	11,440.18	3.31	5,219.39	1.77
Total loans to customers	345,733.94	100.00	294,013.27	100.00

As at June 30, 2018, the gross amount of loans and advances to customers of the Group increased by RMB51,721 million or 17.59% to RMB345,734 million as compared to the end of last year.

As compared to the end of last year, the gross amount of corporate loans increased by RMB40,147 million or 20.85% to RMB232,689 million; gross amount of personal loans increased by RMB5,353 million or 5.56% to RMB101,605 million; and gross amount of discounted bills increased by RMB6,221 million or 119.19% to RMB11,440 million.

MANAGEMENT DISCUSSION AND ANALYSIS

DISTRIBUTION OF LOANS BY PRODUCT TYPE

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Total corporate loans	232,688.70	67.30	192,541.48	65.49
Working capital loans	115,328.95	33.36	95,708.77	32.56
Fixed asset loans	105,629.52	30.55	84,329.87	28.68
finance lease				
receivables	11,526.77	3.33	12,301.68	4.18
Others	203.46	0.06	201.16	0.07
Total personal loans	101,605.06	29.39	96,252.40	32.74
Personal mortgage loans	50,320.69	14.56	46,828.07	15.93
Personal business loans	28,256.04	8.17	26,356.02	8.96
Personal consumption				
loans	14,451.48	4.18	15,043.50	5.12
Balance of credit cards	8,576.85	2.48	8,024.81	2.73
Total discounted bills	11,440.18	3.31	5,219.39	1.77
Bank 's acceptance bills	6,469.62	1.87	219.15	0.07
Commercial acceptance				
bills	4,970.56	1.44	5,000.24	1.70
Total loans to customers	345,733.94	100.00	294,013.27	100.00

As at June 30, 2018, the Group's balance of working capital loans, fixed asset loans and finance lease receivables were RMB115,329 million, RMB105,630 million and RMB11,527 million, respectively, representing 49.56%, 45.40% and 4.95% of total corporate loans, respectively. Further, working capital loans and fixed asset loans increased by RMB19,620 million and RMB21,300 million, or 20.50% and 25.26%, as compared to the end of last year, respectively, mainly due to higher demand for loans to customers.

As at June 30, 2018, the Group's personal mortgage loans, personal business loans, personal consumption loans and the balance of credit cards were RMB50,321 million, RMB28,256 million, RMB14,451 million and RMB8,577 million, respectively, representing 49.53%, 27.81%, 14.22% and 8.44% of total personal loans, respectively. Further, the balances of personal mortgage loans and personal business loans increased by RMB3,493 million and RMB1,900 million, or 7.46% and 7.21%, as compared to the end of last year, respectively.

As at June 30, 2018, the Group's discounted bank's acceptance bills and discounted commercial acceptance bills were RMB6,470 million and RMB4,971 million respectively, Discounted bank's acceptance bills increased by RMB6,250 million and discounted commercial acceptance bills remained stable as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

DISTRIBUTION OF LOANS BY TYPE OF COLLATERAL

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Collateralized loans	205,415.91	59.41	179,578.26	61.07
Pledged loans	31,954.63	9.24	23,102.30	7.86
Guaranteed loans	80,859.46	23.39	65,060.99	22.13
Credit loans	27,503.94	7.96	26,271.72	8.94
Total loans to customers	345,733.94	100.00	294,013.27	100.00

As at June 30, 2018, the Group's collateralized loans, pledged loans, guaranteed loans and credit loans increased by RMB25,838 million, RMB8,852 million, RMB15,798 million and RMB1,232 million, or 14.39%, 38.32%, 24.28% and 4.69%, respectively, as compared to the end of last year. Overall, the share of collateralized loans and pledged loans in total loans amounted to 68.66%, reflecting the prudent risk management policy of the Bank.

2. Investments

The following table sets forth the composition of investments of the Group as at the dates indicated:

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Financial assets at fair value through profit or loss	104,111.07	42.23	15,270.18	6.50
Financial assets at fair value through other comprehensive income	50,427.76	20.46	—	—
Financial assets at amortized cost	91,983.31	37.31	—	—
Available-for-sale financial assets	—	—	68,876.56	29.32
Held-to-maturity investments	—	—	59,902.99	25.49
Investments classified as receivables	—	—	90,919.33	38.69
Total investments	246,522.14	100.00	234,969.06	100.00

As at June 30, 2018, total investments of the Group increased by RMB11,553 million, or 4.92%, to RMB246,522 million as compared to the end of last year, which mainly comprised of investments in interbank negotiable certificates of deposit and interest rate debts.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Liabilities

The following table sets forth the composition of total liabilities of the Group as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Due to customers	493,415.09	70.22	488,671.86	71.11
Deposits from banks and other financial institutions	62,107.88	8.84	43,470.17	6.33
Placements from banks and other financial institutions	3,424.25	0.49	3,572.43	0.52
Repurchase agreements	14,328.25	2.04	23,829.47	3.47
Debt securities issued	96,922.49	13.79	101,383.78	14.75
Others ⁽¹⁾	32,432.75	4.62	26,308.23	3.82
Total liabilities	702,630.71	100.00	687,235.94	100.00

Note:

(1) Mainly including interest payable, borrowings from other banks and accrued staff costs.

As at June 30, 2018, the Group's total liabilities amounted to RMB702,631 million, representing an increase of RMB15,395 million or 2.24% as compared to the end of last year. As the most important source of the Group's capital, amounts due to customers increased by RMB4,743 million or 0.97% as compared to the end of last year.

1. Due to customers

The following table sets forth the due to customers of the Bank by product type as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Corporate deposits⁽¹⁾				
Time	112,199.06	22.74	100,321.44	20.53
Demand	106,232.98	21.53	119,803.15	24.52
Subtotal	218,432.04	44.27	220,124.59	45.05
Personal deposits				
Time	127,987.66	25.94	119,845.95	24.52
Demand	95,069.97	19.27	92,918.34	19.01
Subtotal	223,057.63	45.21	212,764.29	43.53
Pledged deposits	12,318.89	2.50	11,443.91	2.34
Other deposits ⁽²⁾	39,606.53	8.02	44,339.07	9.07
Due to customers	493,415.09	100.00	488,671.86	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

- (1) Mainly including deposits from corporate customers and government bodies.
- (2) Mainly including structured deposits, treasury time deposits and fiscal deposits raised from the launch of principal-preservation wealth management products by the Bank.

As at June 30, 2018, amounts due to customers increased by RMB4,743 million or 0.97% to RMB493,415 million as compared to the end of last year. With respect to the customer structure of the Group, personal deposits accounted for 45.21% of the total amount of deposits from customers, and the balance of personal deposits increased by RMB10,293 million or 4.84% as compared to the end of last year; corporate deposits (excluding pledged deposits) accounted for 44.27% of the total amount of deposits from customers, and the balance of corporate deposits decreased by RMB1,693 million or 0.77% as compared to the end of last year. With respect to the maturity structure, demand deposits accounted for 40.80% of the total amount of deposits from customers, representing a 2.73 percentage points decrease over the end of last year, while time deposits accounted for 48.68%, representing a 3.62 percentage points increase over the end of last year.

(III) Composition of Shareholders' Equity

The following table sets forth the composition of shareholders' equity of the Group as at the date indicated:

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Share capital	9,808.27	19.23	9,592.42	21.63
Capital reserve	10,591.97	20.77	9,719.66	21.92
Surplus reserve	3,777.43	7.41	3,200.15	7.22
General risk reserve	8,728.46	17.11	8,020.43	18.08
Investment revaluation reserve	175.33	0.34	(1,499.02)	(3.38)
Remeasurement gains on defined benefit plans	46.98	0.09	42.78	0.09
Retained earnings	15,414.33	30.22	13,302.82	30.00
Non-controlling interests	2,462.82	4.83	1,970.20	4.44
Total shareholders' equity	51,005.59	100.00	44,349.44	100.00

As at June 30, 2018, the Group recorded a paid-in capital of RMB9,808 million and capital reserve reached RMB10,592 million, an increase of RMB216 million and RMB872 million, respectively, over the corresponding period of last year. Please refer to the notes to condensed consolidated financial statements for further details.

MANAGEMENT DISCUSSION AND ANALYSIS

III. LOAN QUALITY ANALYSIS

(I) Concentration of Loans

1. Concentration indicators

Major regulatory indicators	Regulatory standard	As at June 30, 2018	As at December 31, 2017	As at December 31, 2016
Loan ratio for the largest single borrower (%)	≤10%	4.25	5.19	6.31
Loan ratio for a single group borrower (%)	≤15%	8.14	8.44	8.34

2. Loans to top ten largest single borrowers

Unit: RMB million

Borrower	Industry	As at June 30, 2018		
		Amount	Percentage of the total amount of loans (%)	Percentage of net capital (%)
A	Real estate	2,833.57	0.82	4.25
B	Real estate	2,800.00	0.81	4.20
C	Accommodation and catering	2,649.99	0.77	3.97
D	Leasing and commercial services	2,400.00	0.70	3.60
E	Real estate	2,314.11	0.67	3.47
F	Information transmission, software and information technology services	2,200.00	0.64	3.30
G	Transportation, storage and postal services	2,019.56	0.59	3.03
H	Finance	1,999.80	0.58	3.00
I	Manufacturing	1,898.00	0.55	2.84
J	Wholesale and retail	1,830.00	0.53	2.74

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Five-Category Classification of Loans

The following table sets forth the distribution of the Group's loans by the five-category classification, under which non-performing loans include loans classified into substandard, doubtful and loss categories as at the dates indicated:

Unit: RMB million

Items	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Normal	330,988.32	95.73	282,466.61	96.07
Special mention	9,861.26	2.85	7,096.03	2.41
Substandard	799.32	0.23	1,019.55	0.35
Doubtful	2,676.86	0.77	2,555.04	0.87
Loss	1,408.18	0.41	876.04	0.30
Total loans to customers	345,733.94	100.00	294,013.27	100.00
Non-performing loan ratio⁽¹⁾		1.41		1.51

Note:

(1) As calculated by dividing the total amount of non-performing loans by total loans.

In the first half of 2018, faced with increasingly complicated economic and financial circumstances at home and abroad, the Group enhanced the control of asset quality, expanded investigations on credit asset risks, strengthened risk-alert, tracking and post-loan management, took proactive actions to prevent and resolve risks in advance and made great efforts to collect, dispose of and write off non-performing assets. Specific to non-performing loans, the Group carried out "a special collection operation" and vigorously reduced non-performing loans. Therefore, the quality of assets was stable with overall risks under control. As at June 30, 2018, the non-performing loan ratio was 1.41%, which decreased by 0.1 percentage point from the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Distribution of Non-performing Corporate Loans by Industry

The following table sets forth the distribution of the Group's non-performing corporate loans by industry as at the dates indicated:

Unit: RMB million

Items	As at June 30, 2018			As at December 31, 2017		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio (%)
Wholesale and retail	1,048.38	34.08	2.99	995.95	38.15	3.39
Manufacturing	416.53	13.54	1.60	170.48	6.53	0.78
Leasing and commercial services	360.65	11.72	0.89	330.05	12.64	1.10
Real estate	183.00	5.95	0.33	6.63	0.25	0.01
Agriculture, forestry, animal husbandry and fishery	149.04	4.85	1.85	131.23	5.03	2.52
Transportation, storage and postal services	106.88	3.47	0.88	117.10	4.49	1.23
Construction	20.52	0.67	0.14	72.26	2.77	0.71
Accommodation and catering	15.99	0.52	0.20	20.83	0.80	0.27
Information transmission, software and information technology services	11.32	0.37	0.33	11.49	0.44	0.37
Resident, repair and other services	10.34	0.34	0.50	4.52	0.17	0.20
Others	753.55	24.49	5.05	749.77	28.73	11.21
Water, environment and public utilities management	-	-	-	-	-	-
Education	-	-	-	-	-	-
Health and social services	-	-	-	-	-	-
Production and supply of electricity, heat, gas and water	-	-	-	-	-	-
Total non-performing corporate loans	3,076.20	100.00	1.32	2,610.31	100.00	1.36

Note:

- (1) As calculated by dividing non-performing loans (loans classified into substandard, doubtful and loss categories) of an industry by total loans granted to such industry.

In the first half of 2018, faced with the complicated and ever-changing external economic conditions, the Group continued to optimize its industry-specific credit access standard for customers. As such, the total non-performing corporate loans and non-performing loan ratio remained stable.

MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Distribution of Non-performing Loans by Product Type

The following table sets forth the distribution of the Group's non-performing loans by product type as at the dates indicated:

Unit: RMB million

Items	As at June 30, 2018			As at December 31, 2017		
	Amount	Percentage of total (%)	Non-performing loan ratio (%)	Amount	Percentage of total (%)	Non-performing loan ratio ⁽¹⁾ (%)
Corporate loans	3,076.20	100.00	1.32	2,610.30	100.00	1.36
Personal loans	1,808.16	100.00	1.78	1,840.34	100.00	1.91
Personal mortgage loans	139.83	7.73	0.28	129.45	7.03	0.28
Personal business loans	1,182.48	65.40	4.18	1,246.16	67.71	4.73
Personal consumption loans	146.47	8.10	1.01	135.07	7.34	0.90
Balance of credit cards	339.38	18.77	3.96	329.66	17.92	4.11
Discounted bills	–	–	–	–	–	–
Total non-performing loans	4,884.36	–	1.41	4,450.64	–	1.51

Note:

- (1) As calculated by dividing non-performing loans (loans classified into substandard, doubtful and loss categories) in each product type by total loans in that product type.

As at June 30, 2018, the non-performing ratio of corporate loans decreased by 0.04 percentage point to 1.32% as compared to the end of last year, whereas the non-performing ratio of personal loans decreased by 0.13 percentage point to 1.78% as compared to the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(V) Overdue Loans to Customers

The following table sets forth, for the dates indicated, the aging timetable of the Group's loans by loan certificate.

Unit: RMB million

Item	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Loans that are not past due	337,864.44	97.72	288,048.28	97.97
Loans that are past due	7,869.51	2.28	5,964.99	2.03
Within three months	3,347.10	0.97	1,800.55	0.61
More than three months and within one year	1,189.69	0.34	783.23	0.27
More than one year and within three years	2,399.44	0.69	2,424.32	0.82
More than three years	933.27	0.28	956.89	0.33
Total loans	345,733.94	100.00	294,013.27	100.00
Loans that are past due for more than three months	4,522.40	1.31	4,164.44	1.42

As at June 30, 2018, overdue loans amounted to RMB7,870 million, representing an increase of RMB1,905 million from the end of last year and accounting for 2.28% of the total loans, representing an increase of 0.25 percentage point from the end of last year.

(VI) Rescheduled Loans and Advances

Unit: RMB million

Item	As at June 30, 2018		As at December 31, 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Rescheduled loans and advances	3,301.82	0.96	3,478.00	1.18

As at June 30, 2018, rescheduled loans and advances amounted to RMB3,302 million, representing a decrease of RMB176 million as compared to that at the end of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. ANALYSIS OF CAPITAL ADEQUACY RATIO

The Group adopted the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) to calculate capital adequacy ratio, among which, credit risk was measured at weight method, market risk was measured at standard method and operational risk was measured at basic indicator approach, covering all branches of the Bank as well as subsidiaries which are financial institutions under the Regulation Governing Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》). The following table sets forth, for the dates indicated, the relevant information of the Group's capital adequacy ratio:

(Expressed in RMB million unless otherwise stated)	As at June 30, 2018	As at December 31, 2017
Core Tier 1 capital adequacy ratio	10.46	10.69
Tier 1 capital adequacy ratio	10.49	10.72
Capital adequacy ratio	13.81	12.00
Core Tier 1 capital		
Portion of paid-in capital that may be included	9,808.27	9,808.27
Portion of capital reserve that may be included	10,591.97	10,581.74
Surplus reserve	3,777.43	3,777.43
General risk reserve	8,728.46	8,718.22
Retained earnings	15,414.33	15,114.41
Portion of minority interests may be included	1,137.00	991.18
Others	222.31	(1,955.55)
Total core Tier 1 capital	49,679.77	47,035.70
Regulatory deductions for core Tier 1 capital		
Goodwill (net of deferred tax liability)	(382.22)	(382.22)
Other intangible assets (excluding land use rights)	(180.35)	(208.07)
Core Tier 1 capital, net	49,117.20	46,445.41
Other Tier 1 capital		
Portion of minority interests may be included	142.09	132.16
Net Tier 1 capital	49,259.29	46,577.57
Tier 2 capital		
Tier 2 capital instruments and related premium that may be included	14,095.41	4,096.65
Excessive loan allowances	1,184.39	1,144.23
Portion of minority interests may be included	287.69	328.66
Net capital	64,826.78	52,147.11
Total risk-weighted assets	469,431.79	434,513.31

MANAGEMENT DISCUSSION AND ANALYSIS

As at June 30, 2018, the capital adequacy ratio of the Group was 13.81%, representing an increase of 1.81 percentage points over the beginning of the year. The increase was mainly due to a more rapid increase of net capital than that of risk-weighted assets. The net capital was RMB64,827 million, representing an increase of RMB12,680 million or 24.32% over the beginning of the year, which was mainly due to the issuance of RMB10,000 million tier 2 capital bonds and the increase of core tier 1 capital under the impact of IFRS 9. The risk-weighted assets amounted to RMB469,432 million, representing an increase of RMB34,918 million or 8.04% over the beginning of the year, which was mainly due to the substantial increase of loans.

V. ANALYSIS OF LEVERAGE RATIO

As of June 30, 2018, the Group measured and disclosed the following leverage ratios in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》):

Unit: RMB million

(Expressed in RMB million unless otherwise stated)	June 30, 2018
Net Tier 1 capital	49,259.29
The balance of assets on and off balance sheet after adjustments	788,700.35
Leverage ratio (%)	6.25

VI. SEGMENT INFORMATION

The Group conducts its business principally in Guangdong, the PRC, with its major customers and non-current assets distributed in Guangdong, the PRC.

Summary of Business Segment

Operating income

(Expressed in RMB million, unless otherwise stated)	As at June 30, 2018		As at June 30, 2017	
	Amount	Percentage of total amount (%)	Amount	Percentage of total amount (%)
Corporate banking business	4,409.79	53.94	3,238.77	51.89
Personal banking business	3,209.43	39.26	2,432.62	38.97
Financial market business	539.99	6.60	533.56	8.55
Other businesses	16.03	0.20	36.88	0.59
Total operating income	8,175.24	100.00	6,241.83	100.00

MANAGEMENT DISCUSSION AND ANALYSIS

VII. ANALYSIS OF OFF-BALANCE-SHEET ITEMS

The Group's off-balance-sheet items include bank acceptance, issuance of letters of guarantee, issuance of letters of credit, loan commitments and undrawn credit card limits. As at June 30, 2018, bank acceptance, issuance of letters of guarantee, issuance of letters of credit, loan commitments and undrawn credit card limits were RMB8.774 billion, RMB17.237 billion, RMB1.397 billion, RMB84.209 billion and RMB13.156 billion, respectively.

VIII. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

For details on the Group's contingent liabilities and pledge of assets as at June 30, 2018, please refer to notes 38 and 40 to the condensed consolidated financial statements.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OPERATION

I. Corporate Banking Business

In the first half of 2018, the total profit before tax from corporate banking business of the Company was RMB2,660 million, representing an increase of 16% as compared with the same period of last year and accounting for 61% of the Group's profit before tax. The overall growth in corporate loans of the Group had driven the asset of the corporate business to increase by 32% as compared to last year.

(I) Corporate Deposits

The Bank endeavoured to expand the corporate deposit market. During the period, the Bank promoted and implemented large projects and utilized various deposit products, driving a steady growth in corporate deposits. As of June 30, 2018, the balance of corporate deposits (including pledged deposits and other deposits) of the Bank reached RMB230,959 million, accounting for 51% of the balance of various deposits of the Bank, ranking fourth in Guangzhou regional market.

(II) Corporate Loans

In terms of loans, benefiting from the recovering economy at home and abroad in 2018, corporate entities showed a strong demand for credit loans. As such, corporate asset business developed rapidly and achieved good results. With regards to the policy on extending corporate loans, the Bank adhered to operating according to the principle that was in compliance with laws, and extended corporate loans in a steady and prudent manner based on the macroeconomic control policy of the country and the operation of local corporate entities. As of June 30, 2018, the balance of corporate loans of the Group amounted to RMB232,689 million, representing an increase of RMB40,147 million or 20.85% as compared to the end of last year, ranking first in Guangzhou region in terms of increment.

In the first half of 2018, the Bank extended corporate loans in the total amount of RMB84,800 million (representing an increase of 24.9% as compared with the same period of last year) to 1,211 customers. With respect to customer's composition, by improving and adjusting the organization structure, innovating and promoting the product system and improving the quality of the customer management team, the Bank was committed to providing financing services for large companies such as quality provincial and municipal state-owned enterprises, large listed companies and leading enterprises in industries encouraged by the state in its operating areas. Meanwhile, it actively implemented the macro policies and guidelines, innovated its business models, and carried out close business cooperation with local prime small and medium enterprises in good operating condition and with core competitiveness. In the first half of 2018, the Bank extended RMB56.7 billion of corporate loans to large- and medium-sized customers. In terms of loan extension to industries, the Bank actively encouraged and supported companies in strategic emerging industries including manufacturing of high-end equipment, new energy, new materials and energy conservation and environment protection and supported green credit extension to ensure healthy and steady development of asset business.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) International Business

The international business achieved a stable development. In the first half of 2018, the Bank recorded a steady increase in international settlement amount and foreign-currency capital business. The product system of international business was increasingly improved. Regarding personal business, the Bank launched products such as “agency witness to opening of overseas bank accounts” and “individual cross-border RMB income business” to further enrich its product system of the cross-border business; in respect of the corporate business, the Bank launched exchange settlement for cross-border financing and other products to effectively drive double growth of scale and efficiency. While developing its businesses, the Bank ensured efficient, safe and compliant operation of the international business by improving management, strengthening internal control, expanding channels and building a high-standard talented team.

(IV) Trading Bank Model

By adhering to the market-oriented and customer-centred principle, the Bank kept intensifying efforts for product innovation with a view to serving real economy. In the first half of 2018, the Bank launched many new products and services including comprehensive financial service mode of “Fresh Life” industry chain, city updated capital supervision product and “Sun Cloud Bank” (太陽雲銀行). It broke through the traditional business modes and corporate and retail business scopes and leveraged scenario application and settlement network to provide customers with comprehensive financial services.

II. Personal Banking Business

(I) Personal Deposits

As of June 30, 2018, the balance of time point balance of savings deposits was RMB221,056 million, representing an increase of RMB5,581 million over the beginning of the year and RMB1,318 million over last month. In particular, pure savings deposits increased RMB3,598 million over last month and principal-preservation wealth management decreased by RMB2,280 million over last month. The average daily balance of savings deposits was RMB218,582 million, representing an increase of RMB9,504 million over the beginning of the year.

As at the end of April 2018, the Bank adjusted the tiered interest rate of lump-sum deposit and withdrawal deposits and interest rate of personal large-denomination certificates of deposit and publicized and promoted them via WeChat Official Account and posters. In May 2018, the Bank carried out the deposit marketing activity themed “offering gifts to reward customers”. Customers who met the requirement for deposit growth could get a souvenir by spending one point on our e-mall during the activity.

As of June 30, 2018, the time point balance of wealth management of the Bank was RMB57,748 million (including rural banks), representing an increase of RMB11,134 million on a year-on-year basis. In particular, the time point balance of principal-preservation wealth management was RMB16,338 million, representing a decrease of RMB4,728 million or 22.45% on a year-on-year basis.



MANAGEMENT DISCUSSION AND ANALYSIS

(II) *Personal Loans*

By adhering to the “customer-centred” service philosophy and the objective of “resource integration, comprehensive marketing, process optimization, intensive operation and IT-based risk control”, the Bank built a “credit workshop” for upgraded smart retail featuring standardized products, streamlined operation, professional team, intensive management and automatic risk control, so as to achieve retail finance development characterized by fluent function and maximum efficiency and promote steady growth of operating results of the retail business.

The Bank launched the “Sun Convenient Agricultural Loans” (太陽農易貸) consumption credit business to constantly provide capital support for villagers in house building, village property management, renovation and other household consumptions to improve their living standards. As of June 30, 2018, the Bank issued RMB446 million of “Sun Convenient Agricultural Loans” (太陽農易貸) in total, of which the balance was RMB401 million.

To enhance customer experience, the Bank, while ensuring risk being manageable, continued to update its online consumption loan products. These products offered fast and easy online financing services, processing procedures such as application, approval, granting, repayment and enquiry of loans all through a mobile phone. For the first half of 2018, the Bank built on its existing online consumption loan products and developed a series of products dedicated to customers of mortgage and salary claims, existing customers of peers, Guangzhou villagers and other customer bases. These products spanned “Loans Exclusive for Existing Customers (存量客戶專屬貸款)”, “Micro Loans (小額貸)”, “Villagers Dividends and Fast Loans Online (線上村民分紅快貸)” and others, which further expanded the customer coverage of its personal online consumption loan products and enhanced its competitiveness. Meanwhile, the Bank actively explored new business model of cooperation with third parties to fully leverage advantages in customer resources, transaction data and others brought by collaborative platforms and those in online channels and funds held by the Bank. The above initiative achieved complement in resources and allowed joint efforts in developing each other’s customer resources, further facilitating the going-online of the retail business of the Bank.

As of June 30, 2018, the balance of personal retail loans of the Bank was RMB75,860 million (not included credit card), representing an increase of RMB3,310 million or 4.56% as compared with the end of last year.

Specifically, the Bank’s input in online consumption loan business amounted to RMB1.200 billion during the year, representing an increase of RMB979 million or 442.99% as compared with the corresponding period last year, the time point balance was RMB1.624 billion, representing an increase of RMB381 million or 31.00% as compared with the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) *Bank Cards*

For the six months ended June 30, 2018, the Bank issued an accumulation of 516,400 new personal debit cards, and had 6,645,700 existing personal debit cards. The cumulative deposit balance of existing personal debit cards amounted to RMB79,945 million, representing a year-on-year increase of RMB15,183 million. In the first half of 2018, the cumulative spending related to the debit cards of the Bank amounted to RMB32,746 million, and various fee income of personal debit cards reached RMB28 million.

With respect to the credit card business, the Bank continued to enhance reform & innovation and transformation & upgrading, strengthened its market position and explored new marketing modes and profit models. The Bank continued to enhance product innovation and strengthen marketing promotion and market promotional activities; attached importance to financial technology, realized risk embedding, highlighted the credit cards' financial feature of consumption credit, and kept improving credit card risk management modes, business marketing modes and consumer finance modes. Besides, the Bank promoted the online expansion projects and enriched the customer acquisition channels; kept improving tiered pricing and targeted marketing for customers and vigorously developed featured instalment business, thereby increasing the overall contribution of customers. As of June 30, 2018, a total of 1.3112 million credit cards had been issued; the operating income from the credit card business reached the operating income from the credit card business reached RMB344 million, a year-on-year increase of 34.67%.

(IV) *Other Business*

For the six months ended June 30, 2018, insurance premium of the Bank amounted to RMB640 million, which decreased by RMB1,651 million, or 72.07%, as compared with the corresponding period of last year, due to factors including ceasing sales of products with short- and medium-duration and less single-premium products; intermediary fees amounted to RMB60.38 million, which decreased by RMB37.7471 million, or 38.47%, as compared with the corresponding period of last year; the annualized daily average size of funds amounted to RMB3,397 million, which increased by RMB841 million as compared with the corresponding period of last year and RMB680 million, or 25.02%, from the beginning of the year, mainly due to growth in monetary funds; intermediary fees for fund inflows were RMB5.7733 million, which increased by RMB1.3238 million, or 29.75%, as compared with the corresponding period of last year; and total sales of precious metals under agency were approximately RMB4.0085 million, or 213.65%, as compared with the corresponding period of last year.

The time point balance of non-principal-preservation wealth management was RMB41.41 billion, which increased by RMB15.862 billion, or 62.09%, as compared with the corresponding period of last year.



MANAGEMENT DISCUSSION AND ANALYSIS

III. Financial Market Business

In the first half of 2018, given stringent financial regulation, strong deleveraging trend and frequent rollout of regulatory policies related to the financial market business, the financial market business was confronted with limited investment scale and investment scope and decreasing profitability. In the end of June, 2018, the total assets scale of the financial market segment was RMB410,841 million, with operating income of RMB540 million.

In the end of June, 2018, the balance of wealth management products was RMB123,878 million, a decrease of 22.14% over the beginning of the year, of which, the balance of non-principal-preservation products with floating gains was RMB89,634 million, while that of the principal-preservation products with floating gains was RMB34,244 million.

The Bank's wealth management investment focuses on money market instruments, debt securities and enhanced debt securities. In the end of June, 2018, the investment balance of debt securities and money market instruments amounted to RMB67,961 million, accounting for 55.53% of the total, the investment balance of enhanced debt securities amounted to RMB17,553 million, accounting for 14.34% of the total, the rest of the investment amounted to RMB36,873 million, accounting for 30.13%.

On June 27, 2018, the "China Wealth Management Summit Forum 2018 and the 12th Wealth Management Institution Junding Award" sponsored by Securities Times was held in Shenzhen. The Sun Wealth Management products of GRCB won the "Junding Award for Chinese Urban Commercial Banks (Rural Commercial Banks)" for three consecutive years.

In the national wealth management capability ranking report issued by PY Standard for the first and second quarters of 2018, GRCB ranked 1st in terms of comprehensive wealth management capabilities among banks in Guangdong Province, as well as two single items of risk control capability and wealth management product diversity.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. Financial Business for SMEs

The Bank's SMEs business was growing steadily. As of June 30, 2018, according to the basis of CBRC, the number of SME loan customers of the Bank was 12,456, the balance of SME loans amounted to RMB99,412 million, and the success rate of applying for SME loans was 88.19%.

(I) *Specialized institutions*

The Bank established specialized institutions for SMEs and expanded the coverage of services for SMEs. As of June 30, 2018, the Bank established a total of 13 direct operation SME centers, covering all regions in Guangzhou and Heyuan. Combining the characteristics of regional customers, all direct operation SME centers, together with the widely distributed business outlets of the Bank, developed featured bulk service plans to promote the characteristic operation of specialized branches, leading the transformation and upgrading of the SME business of the Bank at all levels.

(II) *Credit products*

In response to the state's call to vigorously promote the craftsmanship spirit and revitalize the real economy, the Bank implemented the development requirement for inclusive finance for supporting the development of agriculture or SMEs and launched the "Sun Craftsman Loan" (太陽匠人貸) series loan products, to provide loan financial services for craftsmen in industries with local characteristics or traditional techniques in Guangdong Province, including planting, breeding, animal husbandry, embroidery and ceramics. In the initial period, the Bank launched the first sub-brand of "Craftsman Loan" (匠人貸) – "Planting Craftsman" (種植匠) loans, to give credits to craftsmen in planting industry and other specialized households and enterprises (owners) engaged in agricultural production and management. In the future, the Bank will replicate and promote the mode of "Planting Craftsman" (種植匠) loan and develop and enrich the "Sun Craftsman Loan" (太陽匠人貸) series loan products to increase the number of customers acquired in batches and based on scenarios in Sannong and small and micro businesses and expand the coverage of inclusive finance services of the Bank.

The Bank made more efforts to meet the financing needs of small and micro enterprises, and launched a new loan product – "Sun Renewable Loan" to facilitate the business operation of small and micro enterprises. This product enabled customers to continue to use loan funds without needing to repay the principal due with their self-raised funds, which relieved the capital turnover pressure of small and micro enterprises for loan renewal and reduced the costs of bridge financing.

According to the spirits of the documents including Notice of the General Office of the China Banking Regulatory Commission on Innovating the Methods for Repayment of Working Capital Loans of Small and Micro Enterprises (Yin Jian Ban Fa [2009] No. 46) and Notice of the China Banking Regulatory Commission on Improving and Innovating Loan Services for Small and Micro Enterprises and Improving Financial Services for Small and Micro Enterprises (Yin Jian Fa [2014] No. 36), to meet reasonable capital needs of small and micro customers during their operation and development and reduce their financial burdens, the Bank developed and launched the "Lian Lian Dai" (連連貸) products so that small and micro enterprises in good operating condition and with good credit standing need not repay the due principal when the loan is due and can repay the existing due loans by registering a new contract or with the newly issued loans under the original contract, thereby realizing continued use of the loan funds, effectively solving the capital turnover problem of the credited customers during the course of borrowing new loans to repay the old ones, reducing the financial cost of the credited customers and constantly improving the Bank's financial service for corporate customers.

MANAGEMENT DISCUSSION AND ANALYSIS

V. Sannong Financial Services

In the first half of 2018, the Bank continued to implement the “rural financial service 3.0 work plan” and practice the concept of “stepping into villages and changing ideas and modes” to vigorously promote financial services for rural construction. The Bank promoted inclusive finance from four aspects, namely, “policy, product, service and cooperation”, so as to actually “serve agriculture, benefit farmers and prosper the rural areas”.

(I) **Strengthen policy guide and promote agriculture-related business development**

The Bank specified the credit policy orientation and set agriculture-related industries including agriculture, animal husbandry and forestry as industries encouraged and supported by annual credit policies. Meanwhile, the Bank determined the orientation of agriculture-related credit business from policy aspect. Besides, it worked out special examination and approval policies and special assessment policies and set special unit price and special marketing fee rewards to maintain and expand the scale of agriculture-related business and village deposits.

(II) **Adhere to the commitment to serving Sannong and improve the Sannong service level**

1. *Energetically promote continuous development of “Helping Realize Dreams in Qian Village•Supporting Villages” action.*

(1) Visit to “villages”.

In 2018, according to the head office’s plan, various branches should complete regular visits to the villages in their operating areas in the first half of 2018 and listen to the people’s voice and seek their opinions in an all-round way, so as to close the distance between banks and farmers and improve the service efficiency.

(2) Appointing “village officers”

In 2018, the head office continued to appoint the second batch of qualified employees to reside in the villages to provide ancillary support and financial services for grass-root organizations and villagers and better participate in new rural construction.

(3) Compiling “periodicals”

In 2018, the head office will continue to focus on rural economy on the current basis and form a special topic on districts and towns, respectively. The periodicals will not only serve as reference for internal operation, but also be distributed to all villages in the city, so as to focus on new rural construction from a commercial bank’s perspective.

MANAGEMENT DISCUSSION AND ANALYSIS

(4) Organizing good “football matches”

In 2018, The second Thousand Villages Football Match was planned and organized. During the period, the Head Office fully capitalized on the integrated support from event planning companies and various media resources in creating good brand recognition for this event. This had attracted more village committee villagers’ and the public’s attention and participation, enhanced the corporate brand image of the Bank and further strengthened the cooperation with provincial and municipal sports systems and the Football Association units. Based on the operation model of the first football game, the Bank coordinated the selection activities in each district, which enhanced the overall brand image packaging and promotion effect. In addition, the Bank had accelerated the building of the “Thousand Villages Football” brand system. Applications for registration of relevant patents were submitted, which formed the unique sports brand of the Bank and enriched the corporate brand connotation.

(5) Providing good “Internet-based services”

In 2018, by continuously relying on the “Sun Market” (太陽集市), the Head Office will build a characteristic e-commerce sales platform and service network for agricultural and sideline products around the upstream and downstream of the rural industrial chain. Meanwhile, by leveraging Internet-based financial platform, the Bank will continue to set up Internet-based comprehensive service platform to better meet the demand from urban and rural residents for integrated financial services and life services including “medical care, food, housing and travel services”.

(6) Delivering good performance in “social welfare”

In 2018, the Bank continuously promoted supporting projects for “village construction projects” and gave funding support to village construction projects of village communities that maintain good relations with the Bank on a long-term basis with a wide range of existing businesses, or have the potentials to develop new businesses. In light of the Sun Charity Foundation’s annual charity plan, the Bank mobilized all business organizations to continuously carry out such activities as offering assistance for the village communities, promoting the traditional culture of the village communities and delivering care and consolation to the elderly during community festivals. At the same time, the Bank continued to promote the implementation of village construction projects by making full use of resources such as annual village construction funds to support the new rural construction.

2. *Expanding farm-friendly channels and promoting the construction of rural financial service stations*

According to the government’s “Seven-One” standard requirements, the Bank built new rural financial service stations, rationalized its profile on self-owned properties and included suitable property outlets in the list of establishing rural financial service stations and community banks in light of transformation of outlets.



MANAGEMENT DISCUSSION AND ANALYSIS

(III) Accelerate the establishment of “Sun Elderly Village Association”

The Bank strengthened all-round cooperation and interaction with village communities and villagers, implemented the follow-up management of the 13 “Sun Elderly Village Associations” that have been established, improved the operation and management mechanism of the “Sun Elderly Village Association”, continuously mobilized all business organizations to jointly build a new batch of “Sun Elderly Village Association” with local villages and towns and district and street units, and actively explored the new sustained rural financial services that can take into account both public welfare and commercial benefit, paving the way for the Bank to consolidate and expand the village community business.

(IV) Continue to explore new modes of precise poverty alleviation

The Bank actively explored new modes of precise poverty alleviation to achieve good business receipts and social benefits at the same time. Taking advantage of its platform advantage, the Bank actively supported local agricultural leading enterprises in the jurisdiction, striving to be an exemplar of financial precise poverty alleviation. The Bank provided e-commerce services for designated poverty alleviation villages, promoted local specialty products to customers through both online and offline channels, and promoted the use of scanning codes for discounts to effectively increase farmers’ income. Furthermore, the Bank promoted precise poverty alleviation projects with poverty alleviation industry funds. Specifically, taking Pearl River Fund as a capital operation platform, the Bank actively promoted container fish farming project.

(V) Continue to carry out public benefit activities

In 2018, the Bank will continue to implement the guideline of “extending public benefit activities to the last mile of village communities” and invest more money in public benefit activities so as to benefit more poor people. Leveraging from the platform of the Sun Charity Foundation, the Bank will continue to carry out a series of activities such as “promoting the traditional culture of village communities”, “special assistance for village communities” and “delivering care and consolation to the elderly during community festivals”, so as to assist in new rural construction and promote the implementation of village construction projects.

(VI) Make full use of rural financial service stations

The Bank continued to ensure the normal operation of rural financial service stations, giving full play to their functions of facilitating and benefiting the people. The Bank strengthened publicity and promotion of the characteristics of local rural economy, forming a good exemplary effect. Besides, the Bank promoted and deepened the construction of ATMs in rural areas, combined popularization of financial knowledge and product promotion, diversified the financial services at rural ATMs, launched mobile payment programs, and upgraded POS terminals to improve the experience of mobile payment for customers in rural areas.

MANAGEMENT DISCUSSION AND ANALYSIS

VI. Distribution Channels

(1) *Physical Outlets*

As of June 30, 2018, the Bank had 627 operating outlets, of which 618 were located in Guangzhou, accounting for approximately 23% of the total number of operating outlets of all commercial banks in Guangzhou, ranking first. As of June 30, 2018, the Bank operated 5 non-local branches and 4 non-local sub-branches in Foshan, Qingyuan, Heyuan, Zhaoqing and Zhuhai in Guangdong Province.

(2) *Self-service Banking*

In order to expand the scope of customer services and provide customers with more convenient services, as of June 30, 2018, the Bank established 179 24-hour self-service banking facilities and the number of ATMs and self-service inquiry terminals reached 3,139. The proportion of machine to outlet was nearly 5:1, among which the number of ATMs in operation was 2,298, while the number of self-service inquiry terminals in operation was 841.

(3) *Electronic Internet Finance*

(1) *Direct banking*

With regard to direct banking, the Bank continued to enhance the openness and diversification of platform services, and launched fixed-term e-accounts, certificate deposits, beginner wealth management and customized wealth management services, and “Rental Loan” (租金貸) and “Craftsman Loan” (匠人貸) to benefit more clients. Besides, the Bank also displayed the consumption trajectory of clients in the past year through interactive bills, and launched the “Zhujiang Headline” (珠江頭條) daily news feed service to improve service experience. As of June 30, 2018, the number of direct banking clients recorded about 610,000; for the six months ended June 30, 2018, the amount of financial product transactions was about RMB9.724 billion, representing an increase of 1063% on a year-on-year basis.

(2) *Mobile banking*

With regard to mobile banking, the Bank launched scan code collection and payment function to realize convenient collection and payment between individuals, between individuals and merchants, and between merchants, continuously improved financial products and value-added life application functions, and provided customers with comprehensive and convenient mobile services. As of June 30, 2018, the number of individual customers and corporate customers was about 3.44 million and 12,300 respectively; for the six months ended June 30, 2018, the Bank had 5,753,800 financial transactions, amounting to RMB136.96 billion, representing year-on-year increase of 29.00% and 55.00% respectively; the Bank had 67,700 financial transactions with corporate customers, amounting to RMB3.141 billion.



MANAGEMENT DISCUSSION AND ANALYSIS

(3) *New-type payment*

The Bank developed new-type payment business by launching bar code payments, QR code payments and other new products, covering primary online and offline consumption scenarios of cardholders, including collection and settlement needs of companies, small and micro companies and individuals. The initiatives were exemplary projects for consumption of the general public in transportation, education, travelling, medical, catering and utilities aspects, bringing significant convenience. From January to June, 2018, the Bank had 153 million new-type payment transactions with an amount of RMB112.433 billion, representing a year-on-year increase of 30.00% and 60.00%, respectively.

(4) *Online mall (Sun Market (太陽集市))*

Through the Sun Market, the Bank continued to strengthen its advantages of serving "Internet + Agriculture", and established special zones for "famous, special, high-quality and innovative" agricultural products to help local agricultural enterprises open online sales channels; meanwhile, the Bank launched planter cultivation program and integrated industrial chain resources to support the development of agricultural craftsmen through financial services. As of June 30, 2018, the number of online mall customers was approximately 130,000. For the six months ended June 30, 2018, the Bank received 52,000 orders, an increase of 48% year-on-year.

(5) *Internet banking*

For personal Internet banking, the Bank launched new services such as small change appointment service and continuously improved financial products and value-added life application services to provide customers with high-quality and convenient electronic financial services. As of June 30, 2018, the number of Internet banking customers was approximately 1.82 million; 2.713 million financial transactions occurred for the six months ended June 30, 2018, an increase of 4.00% over the corresponding period of last year. The amount of transactions occurred was RMB141.139 billion, representing an increase of 8.00% as compared to the corresponding period of last year.

For corporate Internet banking, the Bank launched the function of proxy payment of construction workers' wages, continued to take electronic settlement as the main channel of settlement with enterprises, and continuously improved business functions to improve customer experience. As of June 30, 2018, the number of corporate Internet banking customers reached 24,000; 670,000 financial transactions occurred for the six months ended June 30, 2018, a year-on-year increase of 14.50%; the transaction amount was RMB377.954 billion, an increase of 31.00% over the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

(6) *Smart banking*

As of June 30, 2018, the Bank had set up 56 intelligent banking outlets which were equipped with such smart equipment including VTM and STM. In the first half of 2018, the accumulated financial transactions through intelligent banking amounted to RMB985 million. At the same time, in response to the requirements of the People's Bank of China to simplify account opening for entities, the Bank launched WeChat account opening reservation service, which significantly increased the efficiency of account opening and reduced the costs of running outlets.

(7) *Cash management business*

Through cash management services, the Bank helped customers optimize business processes, promote close integration of capital flow, information flow and logistics, reduce financial costs, increase capital gains, strengthen risk control, and effectively increase the value of their money. As of the June 30, 2018, the Bank's corporate customers of the cash management business increased to 800; for the six months ended June 30, 2018, financial transactions amounted to RMB11.2 billion.

(8) *Electronic commercial draft*

Electronic commercial draft business is an important part of the Bank's payment and settlement business this year. For the six months ended June 30, 2018, the Bank issued an aggregate of nearly 4,000 electronic bank acceptance bills with a total amount of RMB5.32 billion.

(9) *Corporate settlement card*

The corporate settlement card has the functions of account inquiry, transfer & remittance, cash deposit and withdrawal, POS consumption, product signing, etc. Corporate customers can make money transfers and withdrawals at UnionPay ATMs, swipe cards on UnionPay POS machines, make transfers, pre-applications and authorizations through mobile banking, and sign for products at self-service equipment. As of June 30, 2018, the number of the Bank's corporate settlement card users exceeded 15,000, and 250,000 transactions occurred for the six months ended June 30, 2018, with a transaction amount of RMB1.7 billion.

(10) The Bank provided corporate customers with efficient and convenient self-services through its corporate intelligent terminal and mobile marketing platform. For the six months ended June 30, 2018, 2,106 customers signed via the corporate intelligent terminal, and 116 corporate reservation businesses were handled through the mobile marketing platform.



MANAGEMENT DISCUSSION AND ANALYSIS

VII. Principal Subsidiaries

Zhujiang County Bank is a general name for the village and township banks established by the Bank as a major promoter. The establishment of village and township banks is of great significance for performing social responsibility by the Bank, promoting the development strategies of “rural revitalization” and inclusive finance, increasing the breadth and depth of the service to new rural construction, expanding the space of business growth and establishing a sustainable model for the growth of profit of the Bank. During the Reporting Period, the Bank put more efforts in the management of the village and township banks and steadily improved the operations of the village and township banks. As of June 30, 2018, the Bank established 25 Zhujiang County Banks with aggregate asset amounting to RMB43,807 million and the balance of deposits and loans in aggregate amounting to RMB35,852 million and RMB23,945 million, respectively.

As a wholly-owned subsidiary promoted and established by the Bank, Zhujiang Financial Leasing Co., Ltd. was incorporated and commenced operation in December, 2014, with a registered capital of RMB1 billion. It is mainly engaged in financial leasing related business.

As a holding subsidiary of the Bank, Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd. was incorporated and commenced operation in December, 2017, with a registered capital of RMB600 million. It is mainly engaged in monetary financial business. As of June 30, 2018, its total assets reached RMB7.584 billion, with the balance of deposits and total loans amounting to RMB6.089 billion and RMB1.443 billion, respectively.

VIII. Information Technology

In the first half of 2018, the Bank proactively propelled the establishment of information system and continuously intensified the supporting role of information technology in the development of banking business, and various important information systems maintained stable operation, with “zero” unplanned system outage and stable network operation.

(1) Technology governance

The Bank focused on enhancing the ability of science and technology governance and the improvement in the capabilities of technology management. The Innovation and Technology Construction Committee under the senior management of the Bank organized and convened multiple meetings, at which a series of important proposals were considered and passed, including the Technology Construction Plan for 2018, Information Technology Compliance Construction Work Plan, and Information System Classified Protection Work Plan. The Bank commenced the establishment of information technology systems and standards, completed the addition and revision of scientific and technical systems, operating procedure and standard templates, carried out professional sequence evaluation and performance appraisal optimization of scientific and technical personnel, improved the scientific-technological project management system, and strengthened the establishment of the information security system, business continuity system, and operation supervision, which improved the capacity of independent research and development and business support of science and technology effectively.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) Information security guarantee

The Bank attached great importance to information security management, conducted regular and special self-inspections on information security, classified protection assessment and risk assessment on Internet application system, timely repaired security loopholes, and carried out network security emergency drills to ensure the safe and stable operation of information systems; the Bank also effectively prevented network security risk accidents by strengthening supervision on phishing websites and counterfeit APPs, conducting high-availability transformation on webpage tampering and deploying DDOS, IPS and other facilities.

(3) Business continuity management

The Bank paid high attention to the business continuity management, and continuously optimized management system of business continuity to ensure the continuous and steady operation of the Bank's businesses. In the first half of 2018, firstly, the Bank completed the business impact analysis of 11 important businesses, with the analysis covering all important businesses; secondly, the Bank practically organized and carried out disaster recovery switch drills for four sets of important business systems including process banking and second-generation payment as well as 22 other business systems; thirdly, the Bank vigorously promoted the construction of infrastructure support projects such as local high-availability system, file storage (phase I), and high-availability transformation of load balancer, and actively replaced old equipment to eliminate safety hazards in operations and further safeguard medium- and long-term business development.

(4) Information system construction

The Bank continued to promote the implementation of the Internet finance strategy, further enriched direct banking and other online financial products, and expanded access channels and docking fund companies; built e-commerce platform 2.0 and introduced enterprise e-commerce platform to enhance personal e-commerce experience; reformed electronic seal system for business operation to effectively improve the level and efficiency of seal management in the Bank's outlets; at the same time, it completed transformation of the business needs for UnionPay cardless payment and UnionPay cloud flash payment APP.

The Bank continued to strengthen the supporting role of information technology in various business lines and branches, completed the construction of savings bond system and new wealth management system, which effectively supported the expansion of the retail business; completed native cipher algorithm transformation according to regulatory requirements, exceeded the IC card issuance target set by the NDRC; promoted the implementation of credit card activation project to better support the development of credit card business of the Bank; at the same time, the Bank vigorously promoted infrastructure construction of production and disaster recovery data center, and strived to create a safe and reliable data center to provide a basic guarantee for the rapid development of businesses.



MANAGEMENT DISCUSSION AND ANALYSIS

IX. Employees and Human Resources Management

(1) *Basic Information on Employees*

As of June 30, 2018, the Bank had 6,679 regular employees, of whom 4,540 employees held bachelor's degrees or above, representing 67.97% of all the Bank's regular employees.

(2) *Human Resources Management*

In the first half of 2018, the Department of Human Resources focused on the strategic deployment of the Bank, continued to promote the optimization of the human resources structure of the Bank, intensified staff training, strengthened basic management work, and improved the level of management informationization. Meanwhile, it constantly improved the mechanism of market-oriented talent selection, explored a more scientific and rational talent allocation method, and focused on improving human resource efficiency, with an aim to develop a highly competitive, cohesive, professional and united modern commercial banking staff team and lay a solid talent basis for the rapid development of the Bank's business.

(3) *Training*

The Bank stayed committed to the improvement of the occupational quality of staff. On the one hand, the Bank has established our internal corporate university "Zhujiang Business School" to develop "E-learning" platform, design refined training course system for professionals at various levels and of different types, and carry out targeted and diversified training for staff. On the other hand, the Bank has set up post-doctoral research center and the Zhujiang Financial Research Institute (珠江金融研究院) to establish a platform for high-end research and cultivation of managers. In the first half of 2018, Zhujiang Business School held 237 sessions of staff training of all kinds with 22,000 attendees, fully improving the comprehensive quality of staff.

MANAGEMENT DISCUSSION AND ANALYSIS

RISK MANAGEMENT

In the first half of 2018, under the guidance of *the new Basel Capital Accord* and *the CBRC's guidelines for comprehensive risk management*, the Group kept improving risk management-related policies & tools and risk preference & limit systems, promoted the application of internal rating and carried out various stress testing on a regular basis to enhance the initiative and perspectiveness of risk prevention and control and diversify tools for information technology risk management. The Group also made special self-inspections on various businesses to put into practice the business objective of managing the Bank in a strict manner.

During the Reporting Period, the Group refined its risk management day-by-day thanks to sufficient capital, relatively adequate liquidity, continuous stable asset quality and effective internal control.

(I) Credit Risk Management

Credit risk refers to the risk of economic losses arising from failure of the borrower or the counterparty of the Bank to fulfil relevant obligations as per the contract for various reasons.

In the first half of 2018, in the face of macroeconomic and financial environment, the Group earnestly implemented the state's macroeconomic control policies. Centering on the working ideas of "valuing foundation and strengthening management; adjusting structure and controlling risks; seeking innovation and stable development", the Group implemented projects addressing root causes of risks, strengthened basic management and carried out specific collection of non-performing loans to greatly decrease non-performing loans from such aspects as culture, philosophy, institution, procedure, framework, mechanism, staff, system and tool, so as to constantly improve the construction of credit risk management system. Against the backdrop of changes in macro situation and trends of industrial restructuring, the Group timely adjusted credit policies, reasonably guided credit direction, accelerated restructuring and strengthened risk control in key fields. Particularly, for local debts, real estate, industries with high energy consumption, high pollution or overcapacity, and other key industries and fields, the Group implemented administration list of risk customers with substantial loans and followed up their risk profiles one by one, intensified post-loan management & evaluation and interactive management of substantial risk loans, made greater efforts in risk mitigation, and identified and mitigated potential risks in a prospective and active manner. Meanwhile, the Group also made greater efforts in removing potential risk customers from the list, launched the non-performing loans collection action and gathered the strength of the whole Bank to intensify the collection, disposal and write-off of non-performing assets and strictly control asset quality in an innovative manner based on well-assorted special evaluation plans. The Group also improved the functions and applications of the credit business management system to comprehensively enhance its ability to control credit risks.



MANAGEMENT DISCUSSION AND ANALYSIS

(II) Liquidity Risk Management

Liquidity risk refers to the risk that sufficient funds cannot be obtained at a reasonable cost in time to meet due debts, perform other payment obligations and meet other capital needs of normal business.

The objective of liquidity risk management of the Group is to meet the liquidity needs arising from assets, liabilities and off-balance sheet businesses and fulfil payment obligations to external parties under the normal operation environment of the Group or at a highly stressed condition through the establishment of a scientific and comprehensive liquidity risk management mechanism and effective identification, measurement, monitoring and reporting of liquidity risks, so as to maintain the balance between effectiveness and security of funds.

The Asset/Liability Management Committee is responsible for formulating policies and strategies relating to overall liquidity risk management of the Group, and the Asset/Liability Management Department is responsible for implementing liquidity risk management policies and strategies and monitoring & evaluating liquidity risks. Various business lines provide active cooperation in liquidity management.

In the first half of 2018, the Group continued to implement liquidity risk policies and various measures for liquidity risk management, and enhanced the uniform and centralized management of liquidity risk. The specific management measures included: Firstly, the Group ensured the management of daily capital positions, with the treasurer to comprehensively arrange and allocate the capital positions for the whole Bank, and conduct timely monitoring and proper supplementation to guarantee the safety of provisions. Secondly, the Group included the requirements for liquidity risk management into its business plan to ensure to limit the existing quality liquidity assets within a safe range. Thirdly, based on the liquidity risk tolerance indicators approved by the board of directors at the beginning of the year, the Group formulated limits on liquidity risk every quarter, and monitored the execution of the risk limit every month and assessed the execution every quarter to ensure the liquidity risk is under control. Fourthly, the Group monitored liquidity indicators monthly and made forward-looking predictions of liquidity indicators and gaps, and timely identified risks, and made reasonable capital arrangement. Fifthly, the Group set up treasury trading platform to balance the earnings and losses of the Bank's assets through money market transactions from the prospective of the whole Bank. Sixthly, the Group carried out stress testing for liquidity risk quarterly to timely assess the Bank's liquidity risk tolerance and risk mitigating capability, and added stress testing during the important sensitive period to enhance the monitoring and prevention of liquidity risk on a timely basis.

In the first half of 2018, the overall liquidity risks of the Group were under control, without any significant liquidity risk incidents, key liquidity risk indicators of each month all met the standards and stress testing results showed that the Bank had adequate risk mitigating capability to deal with crises under pressure.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Market Risk Management

Market risk refers to the risk of losses in on- and off-balance sheet businesses from adverse changes in market prices, including interest rate, exchange rate, stock prices and commodity prices. Interest rate risk is the major market risk of bank accounts. The Group calculates interest sensitivity gap on a regular basis, and evaluates, through gap analysis, the interest rate risk that it undertakes and the impacts of changes in interest rate on net interest income & enterprises' net worth under different interest rates.

According to requirements of Guidelines on Market Risk Management of Commercial Banks, Guidelines for Internal Control of Commercial Banks and Guidelines for the Stress Testing of Commercial Banks formulated by the CBRC, the Group manages its interest rate risk and foreign exchange risk with reference to relevant provisions under the New Basel Capital Accord and has established a market risk management system by making provisions on, monitoring and reporting the authorization, credit extension and risk limits.

As our interest rates become more market-oriented, changes in interest risk become more complex and interest rate risks become more closely correlated with other risks of banks. Against the background of "macro prudence" and overall "deleveraging" in the past year, market liquidity was tightened in the first half of 2018, with interest rates rising continuously. In the face of complex market situation, the Group remained concerned about changes in currency policies and market prices, timely adjusted external interest rates and internal prices for deposits and loans of the Bank, adopted more positive and active interest rate pricing strategies to balance costs, incomes & market competitiveness and further promote the overall operating result.

(IV) Operational Risk Management

Operational risk refers to the risk of losses caused by imperfections or faults of internal procedures, staff and system, or external events. Operational risks of the Group are classified mainly into internal risks and external risks. Internal risks mainly include risks arising from human factors, inappropriate procedures and operational processes, and failure of IT system. External risks mainly include risks caused by external emergencies.

In the first half of 2018, pursuant to the new Basel Capital Accord, the Group intensified internal management under the comprehensive risk management system and implemented effective control measures for major risk fields to continuously enhance the level of operational risk prevention and control. Firstly, the Group launched a series of activities themed on "Year of Compliance Culture", and strengthened daily risk management from such aspects as thinking, business policies, management measures and supervision & inspection based on the activity theme of "making rules, understanding duties, holding in awe and strengthening supervision". Secondly, the Group steadily carried out business continuity management. The Group issued the business continuity plan of the whole Bank, and formulated the key work plan for business continuity management of the whole Bank in 2018 to expand the coverage of business continuity management in important businesses. Thirdly, the Group promoted information technology risk management work. Leveraging the role of the second and third lines of defense, the Group formulated the plan for evaluation, inspection and auditing works in relation to information technology risk for 2018 and strengthened its supervision over information technology risk. The Group also optimized the normalized information technology risk-related monitoring indicators system, and collected indicator data and analysed risk trends on a quarterly basis.



MANAGEMENT DISCUSSION AND ANALYSIS

(V) **Implementation of *the New Basel Capital Accord***

The Group continued to execute the new Basel Capital Accord according to regulators' requirements. In the first half of 2018, the Group completed the quantitative measurement & calculation of the Basel III Final Plan and identification & evaluation of principal risks of the second pillar of the New Basel Accord. The Group also continuously applied, monitored and optimized the non-retail internal rating system, and built impairment calculation models for IFRS 9 and IAS, which further enhanced its ability to quantitatively analyze credit risks; developed the scoring models for group customers and operational property mortgage loan, which deepened the coverage of internal rating system. In addition, the Group promoted the construction of the big data-based risk control platform and built a backflow area for data warehouse to enhance its data mining & application ability. The Group promoted the construction of the risk-weighted asset (RWA) system and carried out integration testing on the system. In the future, the system will enable the automatic calculation of RWA across the Bank and provide the function of managing capital planning and RWA planning, making it an effective tool for enhancing the Bank's capital management ability.

(VI) **Anti-money Laundering Conditions**

In the first half of 2018, centring on the risk-oriented philosophy, the Bank earnestly performed its anti-money laundering responsibilities and obligations, and strictly implemented regulators' anti-money laundering work arrangements, which all produced good results. Therefore, the Bank was rated A in the evaluation and rating of the PBOC's anti-money laundering work in 2017.

During the Reporting Period, the Bank formulated an annual work plan, under which it promoted the implementation of various works; the Bank continued to optimize the functions of anti-money laundering systems and indicators & models for monitoring suspicious capital to improve its anti-money laundering monitoring and warning ability; the Bank organized and carried out the customer information supplementary work, and improved customer information and data quality; the Bank earnestly implemented the PBOC's Notice on Strengthening Works Concerning Customer Identification in Anti-money Laundering and other laws and regulations, worked out and put into practice the implementation plan; the Bank issued Risk Reminder for 12 times, gave play to the functions of warning mechanism and effectively guarded against money laundering risks; a total of over 1,600 staff across the Bank improved their professional qualities and skills by attending various on-site and off-site learning and training, which effectively promoted the Bank's anti-money laundering work efficiency and implementation of the anti-money laundering internal control systems; the Bank took an active part in anti-money laundering publicity to vigorously popularize anti-money laundering knowledge, which achieved good publicity effects.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERNAL AUDIT

The Bank has established an independent and vertical internal audit management system. The Bank has an audit committee under the Board of Directors. The audit committee organizes and guides the internal audit work of the Bank based on the authorization of the Board of Directors. The internal audit department is accountable to the Board of Directors and the audit committee, and reports to the Board of Directors and its audit committee and the audit committee of the Board of Supervisors regularly, as well as, submits audit report on a timely basis and reports to the senior management. The internal audit department fully performed the audit supervisory function of the third risk defence. Through audit and evaluation, the internal audit department continued to improve the Bank's operation management, risk management, internal control and corporate governance, so as to help the Bank to enhance operation management and curb irregularities.

During the Reporting Period, the internal audit department fully completed the work arrangements of the Board of Directors, the Board of Supervisors and the leaders of the Bank. By focusing on the auditing purposes of promoting internal control, improving internal management and economic efficiency, and with the use of systematic and standardized audit methods, the department carried out various audit projects, strengthened the control of the audit process and enhanced the management on audit quality, thus achieving remarkable results in audit supervision service. The department carried out seal management, credit business and other risk management audits, and further improved the risk prevention and control levels; conducted special audit investigations to solve difficult and hot issues; carried out year-end benefit audits to ensure the authenticity of business assessment objectives. Meanwhile, it also conducted audits on internal control evaluation of the head office and Zhujiang Financial Leasing Co., Ltd., and comprehensive business audits of the holding rural banks. These efforts promoted the overall improvement of the Bank's internal control, and the sustainable and stable development of various business segments.

With respect to audit of infrastructure, the department upgraded the audit information system, strengthened risk control, realized audit process management, and improved audit efficiency & quality. Based on the concept of "making the best use of people by putting them in the right position", the department switched tasks between the auditors through two-way selection, cultivated compound auditors, and realized optimal allocation of audit resources. Moreover, the department implemented a normalized and specialized construction of audit. Through sorting out business procedures, formulating audit guidance and training on audit, the department achieved the sharing of audit information and experience, and improved the comprehensive quality of audit staff members.



MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

In the first half of 2018, faced with complicated economic situations at home and abroad, China's economy continued to grow steadily, with continuous improvement in economic restructuring; the employment situation was generally stable; consumer prices were stable; replacement of old growth drivers with new ones was further promoted, with improvement in both quality and efficiency; with an accelerated pace of reform and opening up, new industries and businesses emerged and high-quality development achieved a good start. Looking forward to the second half of the year, while focusing on three tough battles, China will also face some prominent problems in macroeconomics, e.g. geopolitics, the Federal Reserve Bank's interest rate hike process, Sino-US trade friction and trend, local crisis in emerging markets, oil prices, structural deleveraging and financial risks, real estate market development, rapidly falling investment growth, etc. Against the backdrop of so many unfavourable factors, risks of China's economic downside will grow in the second half of the year, presenting a significant challenge to commercial banks' operating capacities and their capabilities to cope with such risks. In terms of investment, it is expected that the investment growth will remain low and the infrastructure investment growth may bottom out in the second half of the year. Along with improving profitability of industrial enterprises, the manufacturing investment growth is likely to rise in the second half of the year; under the influence of factors such as financing difficulty and tightening regulation, the development investment growth of the real estate industry may fall from the record high in the first half of the year. The consumption is expected to rebound slightly and the export growth may slow down in the second half of the year.

In the first half of 2018, the Bank's operations, asset scale and profitability grew steadily, with continuous improvement in asset quality. In the second half of the year, the Bank will continue to optimize its assets and liabilities structure and make continuous efforts in improving its management capability and risk management levels, so as to better serve the real economy, achieve various strategic objectives and complete various business tasks.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

Unit: Share, %

	December 31, 2017		Change during the Reporting Period	June 30, 2018	
	Number of shares	Proportion (%)	Amount of change (Share)	Number of shares (Share)	Proportion (%)
Total share capital	9,808,268,539	100.00	–	9,808,268,539	100.00
Non-overseas listed shares					
held by legal persons	5,585,559,888	56.95	–	5,585,559,888	56.95
Including: Shares held by state-owned legal person shareholders	1,796,589,712	18.32	101,500	1,796,691,212	18.32
Non-overseas listed shares					
held by natural persons	2,402,373,651	24.49	–	2,402,373,651	24.49
Including: Shares held by internal staff members	370,438,208	3.78	–	370,438,208	3.78
Overseas listed foreign shares	1,820,335,000	18.56	–	1,820,335,000	18.56

Notes:

- As of the end of the Reporting period, the total number of domestic shareholders of the Bank was 29,157, and the total number of shareholders of H-shares was 101 (HKSCC Nominees Limited, as a nominee, is on behalf of several shareholders).
- The state-owned legal person holds shares of non-overseas listed shares held by 15 state-owned corporate shareholders, including Guangzhou Financial Holding Group Co., Ltd. and Guangzhou Zhujiang Industrial Group Co., Ltd.
- The Bank was recently made aware that Guangzhou Panyu Shiqi Water Supply Company Limited (廣州市番禺石碁自來水公司), a holder of domestic shares of the Bank, had changed into Guangzhou Panyu Shiqi Water Supply Co., Ltd. (廣州市番禺石碁自來水有限公司) under the control of the State-owned Assets Supervision and Administration Bureau of the People's Government of Panyu District, Guangzhou City, with the 101,500 shares it held turned into shares held by state-owned legal person shareholders.

II. SHAREHOLDINGS OF SHAREHOLDERS

(1) Total Number of Shareholders

As of June 30, 2018, the Bank had a total share capital of 9,808 million shares, comprising 7,988 million non-overseas listed shares and 1,820 million overseas listed shares. There were 720 legal person shareholders in possession of 5,586 million non-overseas listed shares accounting for 56.95% of the total share capital. Among which, 15 were state-owned shareholders in possession of 1,797 million shares accounting for 18.32% of the total share capital, while 28,437 were natural person shareholders in possession of 2,402 million non-overseas listed shares accounting for 24.49% of the total share capital.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(2) Top Ten Shareholders' Shareholdings

As of the end of the Reporting Period, the top ten shareholders of GRCB together held 41.57% of the Bank's total share capital, with no single holder of domestic shareholder having control of more than 5% of shares, marking a dispersed shareholding structure. Among the top ten shareholders, the largest domestic shareholder was Guangzhou Finance Holdings Group Co., Ltd., which held 3.73% of shares. The second largest shareholder was Guangzhou Pearl River Enterprises Group Co., Ltd. with 3.45% of shares; and the third largest was Guangzhou Vanlead Group Co., Ltd. with 3.26% of shares. These top three domestic shareholders are all solely state-owned enterprises.

The top ten shareholders' shareholdings are as follows:

No.	Name	Class of Shares	Nature of Shareholder	Number of shares (share)	Shareholding Proportion (%)
1	HKSCC Nominees Limited	H Shares	Other	1,819,960,000	18.55
2	Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司)	Domestic Shares	State-owned legal person	366,099,589	3.73
3	Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司)	Domestic Shares	State-owned legal person	338,185,193	3.45
4	Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司)	Domestic Shares	State-owned legal person	319,880,672	3.26
5	Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司)	Domestic Shares	State-owned legal person	310,728,411	3.17
6	Shanghai Dazhan Investment Management Co., Ltd. (上海大展投資管理有限公司)	Domestic Shares	Non-state-owned legal person	250,000,000	2.55
7	Guangzhou Department Stores Enterprises Group Co., Ltd. (廣州百貨企業集團有限公司)	Domestic Shares	State-owned legal person	191,749,019	1.95
8	Nanjing High-tech Co., LTD. (南京高科股份有限公司)	Domestic Shares	Non-state-owned legal person	180,000,000	1.84
9	Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋樑投資有限公司)	Domestic Shares	Non-state-owned legal person	160,020,000	1.63
10	Guangzhou Huihua Investment Co., Ltd. (廣州匯華投資有限公司)	Domestic Shares	Non-state-owned legal person	140,010,000	1.43
Total				4,076,632,884	41.56

Note:

1. HKSCC Nominees Limited, as a nominee, held 1,819,960,000 H Shares in aggregate in the Bank on behalf of several clients, representing approximately 18.55% of the issued share capital of the Bank. As a member of CCASS, HKSCC Nominees Limited conducts registration and custodian business for clients.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(3) Internal Staff Members' Shareholdings

As of June 30, 2018, the Bank had a total of 5,687 internal staff member shareholders, holding 370 million shares, accounting for 3.78 % of total share capital.

(4) Top Three Company Domestic Shareholders

1. *Guangzhou Finance Holdings Group Co., Ltd.*

Guangzhou Finance Holdings Group Co., Ltd. was established in 2006 by Guangzhou Municipal People's Government as part of the strategic plan of People's Government of Guangdong Province to build Guangzhou into a regional financial center and to become better aligned with development trends within the international finance industry. The aim of Guangzhou Finance Holdings Group Co., Ltd. is to establish and develop a financial holding group with comprehensive competitive advantages able to provide comprehensive services through utilization of a broad range of operating capabilities. With registered capital of RMB6,220 million and 3.73% shares in the Bank, Guangzhou Finance Holdings Group Co., Ltd. is the platform through which the Guangzhou Municipal People's Government consolidates municipal financial industry.

2. *Guangzhou Pearl River Enterprises Group Co., Ltd.*

Guangzhou Pearl River Enterprises Group Co., Ltd., established in 1979, is a large group of enterprises focusing on engineering services (general construction contracting), real-estate development, property management, tourism and hotel. Guangzhou Pearl River Enterprises Group has a registered capital of RMB720 million and holds 3.45% shares in the Bank.

3. *Guangzhou Vanlead Group Co., Ltd.*

Guangzhou Vanlead Group Co., Ltd., established in 2001, is a large industrial group primarily working with rubber tires and sodium carbonate inorganic chemical engineering. Guangzhou Vanlead Group Co., Ltd. has a registered capital of RMB2,000 million and holds 3.26% shares in the Bank.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

(5) INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES UNDER THE REGULATIONS OF HONG KONG

Based on the knowledge of the directors or chief executives of the Bank, as at June 30, 2018, the following persons (other than the directors, supervisors or chief executive of the Bank) had, or were deemed or taken to have interests or short positions in the shares and underlying shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO were as follows:

Name of shareholder	Nature of interest	Class of shares	Long/ short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Guangzhou Municipal People's Government ⁽¹⁾	Interest of a controlled corporation	Domestic Shares	Long	1,796,691,212	18.32%	22.49%
Aeon Life Insurance Company Limited	Beneficial owner	H Shares	Long	295,229,000	3.01%	16.22%
Zeng Weipeng ⁽²⁾	Interest of a controlled corporation	H Shares	Long	200,991,000	2.05%	11.04%
Guangzhou HongHui Investment Co., Ltd. ⁽²⁾	Beneficial owner	H Shares	Long	200,991,000	2.05%	11.04%
Liu Feng ⁽³⁾	Interest of a controlled corporation	H Shares	Long	294,530,203	3.00%	16.18%
Good Prospect Corporation Limited ⁽³⁾	Beneficial owner	H Shares	Long	294,530,203	3.00%	16.18%
Deng Geng ⁽⁴⁾	Interest of a controlled corporation	H Shares	Long	294,554,000	3.00%	16.18%
East Lake Technology Limited ⁽⁴⁾	Beneficial owner	H Shares	Long	294,554,000	3.00%	16.18%
Lei Manying ⁽⁵⁾	Interest of a controlled corporation	H Shares	Long	220,517,797	2.25%	12.11%
NICE CITY ENTERPRISE LIMITED ⁽⁵⁾	Beneficial owner	H Shares	Long	220,517,797	2.25%	12.11%
Lead Straight Limited ⁽⁶⁾	Beneficial owner	H Shares	Long	195,229,000	1.99%	10.72%
Grandbuy International Trade (HK) Limited ⁽⁶⁾	Interest of a controlled corporation	H Shares	Long	195,229,000	1.99%	10.72%
Guangzhou Department Stores Enterprises Group Co., Ltd. ⁽⁶⁾	Interest of a controlled corporation	H Shares	Long	195,229,000	1.99%	10.72%
Guang Rong Finance Company Limited ⁽⁷⁾	Beneficial owner	H Shares	Long	104,347,000	1.06%	5.73%
Guangzhou Finance Holdings (HK) Co., Ltd. ⁽⁷⁾	Interest of a controlled corporation	H Shares	Long	104,347,000	1.06%	5.73%
Guangzhou Finance Holdings Group Co., Ltd. ⁽⁷⁾	Interest of a controlled corporation	H Shares	Long	104,347,000	1.06%	5.73%

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Notes:

- (1) These 1,796,691,212 shares include 366,099,589 shares directly held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), 338,185,193 shares directly held by Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), 319,880,672 shares directly held by Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), 310,728,411 shares directly held by Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), 191,749,019 shares directly held by Guangzhou Department Stores Enterprises Group Co., Ltd. (廣州百貨企業集團有限公司), 137,283,914 shares directly held by Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), 45,312,844 shares directly held by Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), 33,405,752 shares directly held by Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), 18,304,522 shares directly held by Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), 9,152,261 shares directly held by Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司), 7,052,469 shares directly held by Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), 10,000,000 shares directly held by Guangzhou Hanlin International Technology Park Co., Ltd. (廣州翰林國際科技創業園有限公司), 9,152,261 shares directly held by Guangzhou Hi-tech Investment Group Co., Ltd. (廣州高新區投資集團有限公司), 282,805 shares directly held by Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司) and 101,500 shares directly held by Guangzhou Panyu Shiqi Water Supply Co., Ltd. (廣州市番禺石碁自來水有限公司).

By virtue of the SFO, Guangzhou Municipal People's Government is deemed to be interested in the shares held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), Guangzhou Department Stores Enterprises Group Co., Ltd. (廣州百貨企業集團有限公司), Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司) and Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), which are directly or indirectly wholly-owned by Guangzhou Municipal People's Government, and in the shares held by Guangzhou Hi-tech Investment Group Co., Ltd. (廣州高新區投資集團有限公司), Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司) and Guangzhou Panyu Shiqi Water Supply Co., Ltd. (廣州市番禺石碁自來水有限公司), which are controlled by Guangzhou Municipal People's Government.

Further, Guangzhou Hanlin International Technology Park Co., Ltd. (廣州翰林國際科技創業園有限公司) is owned as to 88.23%, 7.65% and 4.12% by Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (廣州國壽城市發展產業投資企業), Guangzhou Science and Technology Innovation Investment Financial Holdings Ltd. (廣州科技金融創新投資控股有限公司) and Guangzhou Keyuan Medium and Small Enterprise Investment Operation Co., Ltd. (廣州科源中小企業投資經營有限公司). Guangzhou China Life Insurance Urban Development Industry Investment Enterprises (廣州國壽城市發展產業投資企業) is a limited partnership and its general partner is an indirectly wholly-owned subsidiary of Guangzhou Municipal People's Government. Guangzhou Science and Technology Innovation Investment Financial Holdings Ltd. (廣州科技金融創新投資控股有限公司) is an indirectly wholly-owned subsidiary of Guangzhou Municipal People's Government. Guangzhou Keyuan Medium and Small Enterprise Investment Operation Co., Ltd. (廣州科源中小企業投資經營有限公司) is owned as to 75% by an indirectly wholly-owned subsidiary of Guangzhou Municipal People's Government. By virtue of the SFO, Guangzhou Municipal People's Government is deemed to be interested in the shares held by Guangzhou Hanlin International Technology Park Co., Ltd. (廣州翰林國際科技創業園有限公司).

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

- (2) Guangzhou HongHe Investment Co., Ltd. is owned as to 90% by Zeng Weipeng, Guangzhou HongHe Investment Co., Ltd. owns Guangzhou HongHui Investment Co., Ltd. Therefore, Zeng Weipeng is deemed to be interested in the 200,991,000 shares by virtue of the SFO.
- (3) Liu Feng wholly owns Good Prospect Corporation Limited. Therefore, Liu Feng is deemed to be interested in the 294,530,203 shares by virtue of the SFO.
- (4) Deng Geng wholly owns East Lake Technology Limited. Therefore, Deng Geng is deemed to be interested in the 294,554,000 shares by virtue of the SFO.
- (5) Lei Manying wholly owns NICE CITY ENTERPRISE LIMITED. Therefore, Lei Manying is deemed to be interested in the 220,517,797 shares by virtue of the SFO.
- (6) Grandbuy International Trade (HK) Limited is wholly owned by Guangzhou Department Stores Enterprises Group Co., Ltd., Lead Straight Limited is wholly owned by Grandbuy International Trade (HK) Limited. Hence, Guangzhou Department Stores Enterprises Group Co., Ltd. and Grandbuy International Trade (HK) Limited Co., Ltd. are deemed to be interested in the 195,229,000 shares by virtue of the SFO.
- (7) Guangzhou Finance Holdings (HK) Co., Ltd. is owned as to 62.49% by Guangzhou Finance Holdings Group Co., Ltd., Guang Rong Finance Company Limited is wholly owned by Guangzhou Finance Holdings (HK) Co., Ltd.. Hence, Guangzhou Finance Holdings Group Co., Ltd and Guangzhou Finance Holdings (HK) Co., Ltd are deemed to be interested in the 104,347,000 shares by virtue of the SFO.

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

(6) Major Shareholders

As of the end of the Reporting Period, there were no legal person shareholders holding 5% or more of the total share capital of the Bank, nor were there any other employees or natural persons holding 5% or more of the shares of the Bank. Guangzhou Municipal People's Government indirectly holds 18.32% of shares of the Bank through 15 legal person shareholders which are under its control, which holds 1,796,691,212 shares.

Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), Chimelong Group Co., Ltd. (廣州長隆集團有限公司), Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司), Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司) and Guangdong Zhujiang Highway Bridge Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司) delegated Li Fangjin, Zheng Shuping, Su Zhigang, Shao Jianming, Zhang Yongming, Liu Guojie and Zhu Kelin as directors of the Bank; Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司) and Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司) delegated Huang Yong, Lu Lian and Zhang Dalin as supervisors of the Bank. The above companies are major shareholders of the Bank.

As at June 30, 2018, the pledge proportion of Guangdong Zhujiang Highway Bridge Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司), Fengchi Investment Co., Ltd. (豐馳投資有限公司), Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司), Guangzhou Goldvole Property Co., Ltd. (廣州市金宏利置業有限公司). and Guangzhou Fengle Fuel Co., Ltd. (廣州市豐樂燃料有限公司) as the Bank's substantial shareholders or its related party was more than 50%, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. DIRECTORS OF THE BANK

As of June 30, 2018, the Board of Directors of the Bank comprised a total of 14 directors, including two executive directors, namely Mr. Wang Jikang (Secretary of the Party Committee and Chairman) and Mr. Yi Xuefei (Deputy Secretary of the Party Committee, Vice Chairman and President); seven non-executive directors, namely Mr. Li Fangjin, Mr. Zheng Shuping, Mr. Su Zhigang, Mr. Shao Jianming, Mr. Zhang Yongming, Mr. Liu Guojie and Mr. Zhu Kelin; and five independent non-executive directors, namely Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond.

II. SUPERVISORS OF THE BANK

As of June 30, 2018, the Board of Supervisors of the Bank comprised a total of 7 supervisors, including an employee representative supervisor, namely Ms. He Heng; three shareholder representative supervisors, namely Mr. Huang Yong, Mr. Lu Lian, and Mr. Zhang Dalin; and three external supervisors, namely Mr. Mao Yunshi, Mr. Chen Dan, and Mr. Shao Baohua.

Mr. Liu Wensheng resigned from the positions as the chairman of the Board of Supervisors and employee representative supervisor of the Bank due to job relocation reasons and has submitted a written resignation report to the Board of Supervisors of the Bank, with effect from January 31, 2018. For the further information, please refer to the announcement of the Bank dated February 1, 2018.

On June 19, 2018, Mr. Xiao Shilian resigned from the position as employee representative supervisor of the Bank due to job relocation, with effect from the same day. For further information, please refer to the announcement of the Bank dated June 19, 2018.

III. SENIOR MANAGEMENT OF THE BANK

Mr. Chen Wu, the Vice president of the Bank, has resigned on January 31, 2018 and Wu Haifeng, Assistant to president of the Bank, has resigned on January 16, 2018.

IV. SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank has adopted a code of conduct regarding securities transactions by the directors, supervisors and relevant employees no less exacting than the required standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. Having made specific enquiries with all directors and supervisors, all directors and supervisors of the Bank confirmed that they have complied with the aforesaid code throughout the six months from January 1, 2018 to June 30, 2018.



MAJOR EVENTS

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to refine its corporate governance mechanism and improved its corporate governance in strict compliance with laws and regulations such as the Company Law of the PRC, the Commercial Banking Law of the PRC as well as the Listing Rules and in line with actual conditions of the Bank.

From the date of the listing of the Bank on the Hong Kong Stock Exchange to June 30, 2018, the Bank had been observing and complying with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, the Bank had been complying with most of the recommended best practices set out in the aforementioned code.

IMPLEMENTATION OF DIVIDENDS DISTRIBUTION

Upon the approval of the 2017 AGM of the Bank, the Bank distributed cash dividends for 2017 on July 13, 2018 of RMB0.20 per share (tax inclusive) and RMB1,962 million (tax inclusive) in aggregate to the holders of domestic shares and H-share holders whose names appeared on the register of members of the Bank on June 14, 2018. The Bank did not declare any interim dividend for 2018 (2017: nil).

REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, the Bank did not repurchase, sell or redeem any of the Bank's listed securities.

MATERIAL RELATED PARTY TRANSACTIONS *(TO BE PROVIDED – RISK MANAGEMENT DEPARTMENT)*

As at the end of the Reporting Period, the loan balance of material related party transactions between the Bank and related parties amounted to RMB2,661 million, accounting for 0.77% of the total loans of the Bank. Loans under the material related party transactions between the Bank and related parties had no negative impact on the operating results and financial position of the Bank.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the Reporting Period, save as disclosed below, there were no material legal proceedings or arbitration which had substantial impact on the operation activities of the Bank.

As of June 30, 2018, pending legal proceedings in which the Bank was involved as a defendant amounted to RMB109,565,151.67.

MAJOR EVENTS

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE COMPANY

As at June 30, 2018, based on the information available to the Bank and as far as the directors are aware, the interests or short positions of the directors, supervisors and the chief executives of the Bank in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which he/she was deemed or taken to have under such provisions of the SFO), or as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Directors' supervisors' and chief executives' interests in the Bank

Name	Capacity	Nature of interest	Class of shares	Long position/ Short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Wang Jikang	Director	Beneficial owner	Domestic Shares	Long position	500,000	0.005%	0.006%
Yi Xuefei	Director	Beneficial owner	Domestic Shares	Long position	500,000	0.005%	0.006%
Su Zhigang	Director	Interest of a controlled corporation ⁽¹⁾	Domestic Shares	Long position	60,020,000	0.612%	0.751%
Zhu Kelin	Director	Interest of spouse	Domestic Shares	Long position	1,201,000	0.012%	0.015%
Shao Jianming	Director	Beneficial owner/ Interest of a controlled corporation ⁽²⁾	Domestic Shares	Long position	405,800 14,060,000	0.004% 0.143%	0.005% 0.176%
Zhang Yongming	Director	Beneficial owner/ Interest of a controlled corporation ⁽³⁾	Domestic Shares	Long position	11,067,400 49,010,000	0.113% 0.500%	0.139% 0.689%
Liu Guojie	Director	Interest of a controlled corporation ⁽⁴⁾	Domestic Shares	Long position	20,000,000	0.204%	0.250%
Lu Lian	Supervisor	Interest of a controlled corporation ⁽⁵⁾	Domestic Shares	Long position	10,010,000	0.102%	0.125%
Zhang Dalin	Supervisor	Beneficial owner/ Interest of a controlled corporation ⁽⁶⁾	Domestic Shares	Long position	1,201,000 5,000,000	0.012% 0.051%	0.015% 0.063%
Mao Yunshi	Supervisor	Interest of spouse	Domestic Shares	Long position	1,201,000	0.012%	0.015%
Shao Baohua	Supervisor	Beneficial owner/ Interest of spouse/ Interest of a controlled corporation ⁽⁷⁾	Domestic Shares	Long position	1,201,000 2,407,000 42,010,000	0.012% 0.025% 0.428%	0.015% 0.030% 0.526%

MAJOR EVENTS

Notes:

- (1) 30,010,000 shares, 20,000,000 shares and 10,010,000 shares were held respectively by Chimelong Group Co., Ltd., Xiangjiang Safari Park Branch (廣州長隆集團有限公司香江野生動物世界分公司), Chimelong Group Co., Ltd., Chimelong Night Safari Park Branch (廣州長隆集團有限公司長隆夜間動物世界分公司) and Chimelong Group Co., Ltd., Xiangjian Hotel Branch (廣州長隆集團有限公司香江酒店分公司), which were owned as to 87.14% by Su Zhigang, respectively. Therefore, by virtue of the SFO, Su Zhigang, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Chimelong Group Co., Ltd., Xiangjiang Safari Park Branch (廣州長隆集團有限公司香江野生動物世界分公司), Chimelong Group Co., Ltd., Chimelong Night Safari Park Branch (廣州長隆集團有限公司長隆夜間動物世界分公司) and Chimelong Group Co., Ltd., Xiangjian Hotel Branch (廣州長隆集團有限公司香江酒店分公司).
- (2) These shares were held by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), which was owned as to 65% by Shao Jianming. Therefore, by virtue of the SFO, Shao Jianming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司).
- (3) These shares were held by Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司), which was wholly-owned by Zhang Yongming. Therefore, by virtue of the SFO, Zhang Yongming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司).
- (4) These shares were held by Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司), which was owned as to 99% by Liu Guojie. Therefore, by virtue of the SFO, Liu Guojie, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司).
- (5) Among these shares, 5,010,000 shares were held by Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司), which was owned as to 99% by Lu Lian, and 5,000,000 shares were held by Guangzhou Goldvole Real Estate Co., Ltd. (廣州市金宏利置業有限公司), which was owned as to 90% by Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司). Therefore, by virtue of the SFO, Lu Lian, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司) and Guangzhou Goldvole Real Estate Co., Ltd. (廣州市金宏利置業有限公司).
- (6) These shares were held by Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司), which was owned as to 84% by Zhang Dalin. Therefore, by virtue of the SFO, Zhang Dalin, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司).
- (7) These shares were held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

MAJOR EVENTS

Directors' supervisors' and chief executives' interests in the associated corporations of the Bank

Name	Capacity	Name of associated corporation	Nature of interest	Long position/ Short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the associated corporation
Shao Jianming	Director	Heshan Zhujiang County Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽⁸⁾	Long position	15,000,000	10.00%
Lu Lian	Supervisor	Dongguan Huangjiang Zhujiang County Bank Co., Ltd. (東莞黃江珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽⁹⁾	Long position	13,500,000	9.00%
		Suzhou Wuzhong Zhujiang County Bank Co., Ltd. (蘇州吳中珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽⁹⁾	Long position	7,500,000	5.00%
		Xinyang Zhujiang County Bank Co., Ltd. (信陽珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽⁹⁾	Long position	12,000,000	2.90%
Shao Baohua	Supervisor	Heshan Zhujiang County Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司)	Interest of a controlled corporation ⁽¹⁰⁾	Long position	6,500,000	4.33%

Notes:

- (8) Heshan Zhujiang County Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司) was owned as to 10.00% by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), which was owned as to 65% by Shao Jianming. Therefore, by virtue of the SFO, Shao Jianming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司).
- (9) Xinyang Zhujiang County Bank Co., Ltd. (信陽珠江村鎮銀行股份有限公司), Suzhou Wuzhong Zhujiang County Bank Co., Ltd. (蘇州吳中珠江村鎮銀行股份有限公司) and Dongguan Huangjiang Zhujiang County Bank Co., Ltd. (東莞黃江珠江村鎮銀行股份有限公司) were owned as to 2.90%, 5.00% and 9.00% by Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司), respectively, which was owned as to 99% by Lu Lian. Therefore, by virtue of the SFO, Lu Lian, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by Guangzhou Goldvole Investment Group Co., Ltd. (廣州市金宏利投資集團有限公司) in Xinyang Zhujiang County Bank Co., Ltd. (信陽珠江村鎮銀行股份有限公司), Suzhou Wuzhong Zhujiang County Bank Co., Ltd. (蘇州吳中珠江村鎮銀行股份有限公司) and Dongguan Huangjiang Zhujiang County Bank Co., Ltd. (東莞黃江珠江村鎮銀行股份有限公司).
- (10) Heshan Zhujiang County Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司) was owned as to 4.33% by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

Save as disclosed above, as at June 30, 2018, none of the directors, supervisors and chief executives of the Bank had any interests or short positions in any shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO, or required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.



MAJOR EVENTS

PENALTIES IMPOSED ON THE BANK AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, the Bank and all its directors, supervisors and senior management had no record of being subject to inspections, administrative penalties and circulating criticisms by the CSRC or public censures by the Hong Kong Stock Exchange, or penalties by relevant regulatory bodies that posed significant impact on the Bank's operation.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Bank had no material contracts and their performance.

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, Zhengzhou Zhujiang Rural Bank Co., Ltd. (鄭州珠江村鎮銀行股份有限公司), in which the Bank holds 35% of the equity interests, obtained business license from the CBRC Henan Office and officially started its operations on May 16, 2018.

MAJOR CAPITAL OPERATION

During the Reporting Period, the Bank completed the issuance of the first tranche of the tier-two capital bonds of 2018 (the "Bonds") in the size of RMB10 billion on March 23, 2018. The Bonds are at a ten-year fixed rate, and can be conditionally redeemed at the end of the fifth year by the Bank as the issuer who has the right to redeem the Bonds at face value in whole or in part upon obtaining the approval from relevant regulatory authorities. The face value of the Bonds is RMB100 with an issuing price of RMB100.

SUBSEQUENT EVENTS

The Board of Directors of the Bank resolved on July 20, 2018 to submit to the EGM for approval of a resolution relating to the grant of a general mandate to the Board of Directors in respect of the issuance of Domestic Shares and H Shares, under which the Board of Directors may issue, allot and/or deal with not more than 20% of the total number of Domestic Shares and H Shares in issue, respectively. Such proposal will be submitted as a special resolution at the EGM for consideration and approval on September 6, 2018.

On the same date, the proposal for the A Shares and Offshore Preference Shares Offering was approved by the Board of the Bank. Such proposal will be submitted as a special resolution at the First Domestic Shareholders Class Meeting of 2018, the First H Shareholders Class Meeting of 2018 and the EGM for consideration and approval.

In response to the plans of the Guangdong provincial government, local government authorities, regulatory bodies and the Guangdong Rural Credit Union are jointly promoting the restructuring rural credit union into rural commercial banks. The Bank is planning to participate, as a major strategic investor, in the restructuring of six rural credit unions including Shaoguan, Nanxiong and Chaozhou, namely (1) the merger and restructuring of the Shaoguan Downtown Rural Credit Union and the Qujiang Credit Union into a rural commercial bank; (2) the restructuring of Nanxiong Rural Credit Union into a rural commercial bank; and (3) the merger and restructuring of the Chaozhou Downtown Rural Credit Union, Chao'an Rural Credit Union and Yaoping Rural Credit Union into a rural commercial bank.

For further information, please refer to the circular of the Bank dated August 22, 2018.

MAJOR EVENTS

CHANGE OF AUDITOR

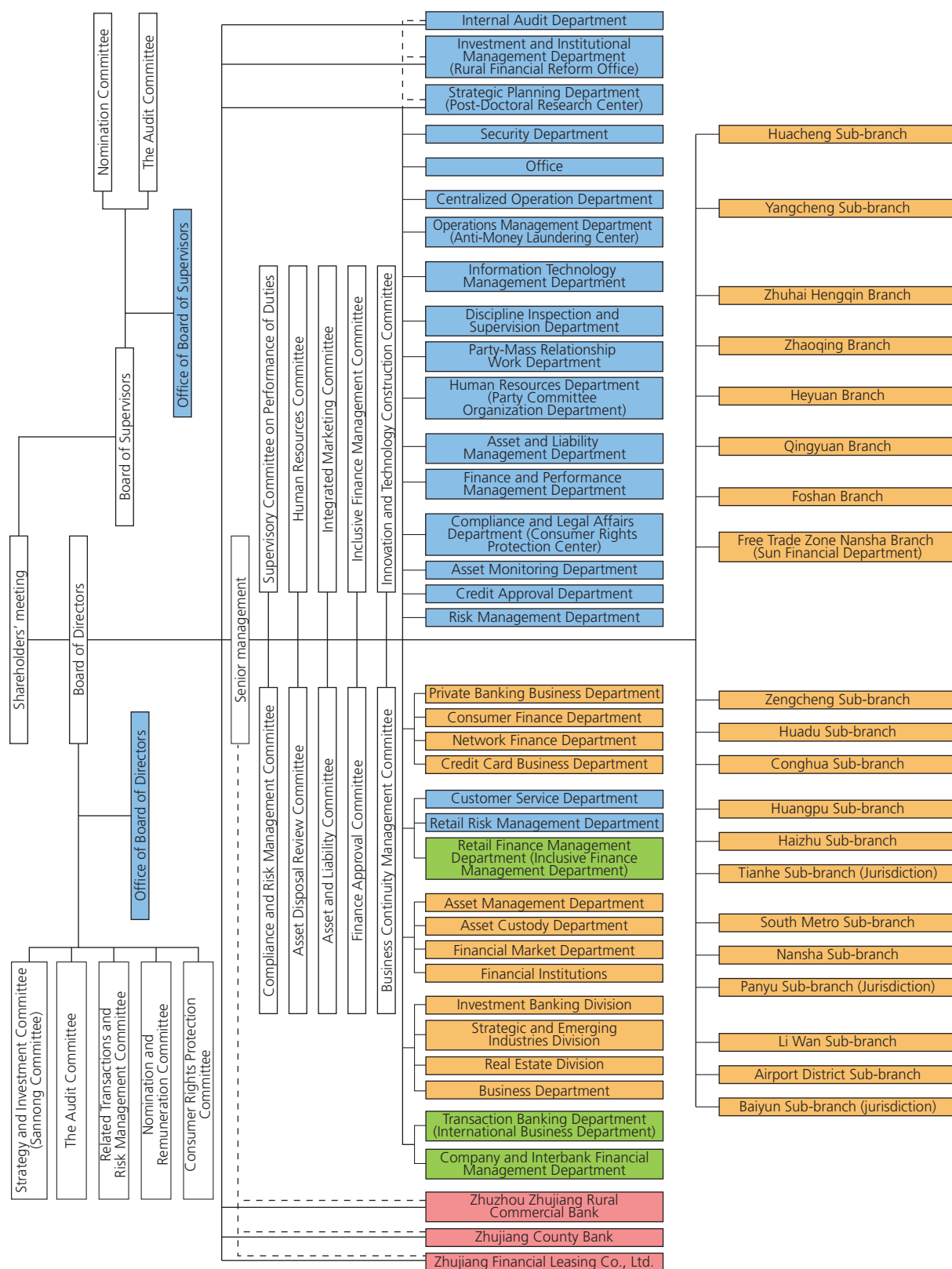
The Board of Directors of the Bank resolved on August 22, 2018 that the auditors of the Bank with regard to domestic and international auditing for the year ending December 31, 2018, which were Ernst & Young Hua Ming CPA Limited Company (Special General Partnership) and Ernst & Young, be changed to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers Limited, subject to approval at the first extraordinary shareholders' meeting of the Bank for 2018 to be held on September 6, 2018. For further information, please refer to the announcement of the Bank dated August 22, 2018.

REVIEW OF INTERIM RESULTS

The Bank's interim condensed consolidated financial data for the six months ended June 30, 2018 prepared in accordance with the IFRS had been reviewed by Ernst & Young, who had issued an unqualified review report.

The Bank's interim report for the six months ended June 30, 2018 had been reviewed by the audit committee under the Board of Directors of the Bank and the Board of Directors.

CORPORATE STRUCTURE



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

To the Board of Directors of Guangzhou Rural Commercial Bank Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages 68 to 155, which comprise the condensed consolidated statement of financial position of Guangzhou Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (the "Group") as at 30 June 2018 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting ("IAS 34") issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young

Certified Public Accountants

Hong Kong

24 August 2018

CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the six months ended 30 June 2018

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

		Six months ended 30 June	
	Note	2018 (Unaudited)	2017 (Unaudited)
Interest income	6	13,839,611	14,943,986
Interest expense	6	(8,250,428)	(8,893,025)
NET INTEREST INCOME	6	5,589,183	6,050,961
Fee and commission income	7	1,061,170	1,170,594
Fee and commission expense	7	(95,225)	(105,881)
NET FEE AND COMMISSION INCOME	7	965,945	1,064,713
Net trading income	8	2,570,849	483,169
Net losses on financial investments	9	(1,041,123)	(1,336,357)
Other income, gains or losses	10	90,385	(20,660)
OPERATING INCOME		8,175,239	6,241,826
Operating expenses	11	(2,841,512)	(2,339,150)
Impairment losses on assets	12	(1,000,360)	(488,016)
PROFIT BEFORE TAX		4,333,367	3,414,660
Income tax expense	13	(942,030)	(775,379)
PROFIT FOR THE PERIOD		3,391,337	2,639,281
Attributable to:			
Equity holders of the parent company		3,321,637	2,622,063
Non-controlling interests		69,700	17,218
EARNINGS PER SHARE (RMB yuan)			
– basic and diluted	15	0.34	0.32

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Six months ended 30 June	
		2018 (Unaudited)	2017 (Unaudited)
Profit for the period		3,391,337	2,639,281
Other comprehensive income (after tax, net):			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement (losses)/gains on defined benefit plans	34	(21,186)	8,964
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net gains on financial assets at fair value through other comprehensive income	34	1,499,912	–
Net losses on available-for-sale financial assets	34	–	(785,195)
Subtotal of other comprehensive gains/(losses) for the period		1,478,726	(776,231)
Total comprehensive income for the period		4,870,063	1,863,050
Total comprehensive income attributable to:			
Equity holders of the parent company		4,800,363	1,845,832
Non-controlling interests		69,700	17,218
		4,870,063	1,863,050

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

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

	Note	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
ASSETS			
Cash and balances with central bank	16	82,431,913	103,767,440
Deposits with banks and other financial institutions	17	10,624,963	14,443,630
Placements with banks and other financial institutions	18	14,429,974	6,606,541
Financial assets at fair value through profit or loss	19	104,111,073	15,270,181
Reverse repurchase agreements	20	49,913,994	76,393,395
Loans and advances to customers	21	336,034,793	285,701,697
Financial investments	22	142,411,069	219,698,877
Property and equipment	23	2,470,902	2,012,502
Goodwill		382,216	382,216
Deferred tax assets	24	3,381,422	3,634,745
Other assets	25	7,443,984	7,802,436
TOTAL ASSETS		753,636,303	735,713,660
LIABILITIES			
Due to central bank		2,046,982	1,130,600
Due to banks and other financial institutions	26	62,107,879	43,470,165
Placements from banks and other financial institutions	27	3,424,247	3,572,433
Repurchase agreements	28	14,328,247	23,829,470
Due to customers	29	493,415,094	488,671,856
Income tax payable		368,706	563,686
Debt securities issued	30	96,922,489	101,383,777
Other liabilities	31	30,017,067	24,613,954
TOTAL LIABILITIES		702,630,711	687,235,941
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	32	9,808,269	9,808,269
Reserves	33	23,320,173	21,121,839
Retained profits		15,414,325	15,114,407
		48,542,767	46,044,515
Non-controlling interests		2,462,825	2,433,204
TOTAL EQUITY		51,005,592	48,477,719
TOTAL EQUITY AND LIABILITIES		753,636,303	735,713,660

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

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

Wang Jikang
Chairman

Peng Zhijun
Head in Charge of Finance Function

Ding Bin
Head of Financial Department

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Note	Unaudited									
	Attributable to equity holders of the parent company									
	Reserves									
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans	Subtotal	Retained profits	Total	Non-controlling interests
Balance at 31 December 2017	9,808,269	10,581,739	3,777,432	8,718,218	(2,023,717)	68,167	21,121,839	15,114,407	46,044,515	2,433,204
Impact of adopting IFRS 9	-	-	-	-	699,135	-	699,135	(1,049,825)	(350,690)	(95,932)
Restated balance at 1 January 2018	9,808,269	10,581,739	3,777,432	8,718,218	(1,324,582)	68,167	21,820,974	14,064,582	45,693,825	2,337,272
Profit for the period	-	-	-	-	-	-	-	3,321,637	3,321,637	69,700
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
- Change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	1,499,912	-	1,499,912	-	1,499,912	-
- Remeasurement losses on defined benefit plans	-	-	-	-	-	(21,186)	(21,186)	-	(21,186)	-
Total comprehensive income	-	-	-	-	1,499,912	(21,186)	1,478,726	3,321,637	4,800,363	69,700
Capital contributed by non-controlling shareholders	-	-	-	-	-	-	-	-	-	130,000
Shareholders' donation (note 31)	-	10,233	-	-	-	-	10,233	-	10,233	-
Appropriation to general reserve	-	-	-	10,240	-	-	10,240	(10,240)	-	-
Dividends declared and paid (note 14)	-	-	-	-	-	-	-	(1,961,654)	(1,961,654)	(74,147)
Balance at 30 June 2018	9,808,269	10,591,972	3,777,432	8,728,458	175,330	46,981	23,320,173	15,414,325	48,542,767	2,462,825
										51,005,592

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months period ended 30 June 2018

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

	Unaudited									
	Attributable to equity holders of the parent company									
	Reserves									
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans	Retained profits	Non-controlling interests	Total	Total equity
Balance as at 1 January 2017	8,153,419	4,839,809	3,200,146	8,020,433	(713,828)	33,817	15,380,377	12,311,444	35,845,240	1,994,463
Profit for the period	-	-	-	-	-	-	-	2,622,063	2,622,063	17,218
Other comprehensive income	-	-	-	-	-	-	(785,195)	-	(785,195)	-
- Change in fair value of available-for-sale investments, net of tax	-	-	-	-	(785,195)	-	(785,195)	-	(785,195)	-
- Remeasurement gains on defined benefit plans	-	-	-	-	-	8,964	8,964	-	8,964	8,964
Total comprehensive income	-	-	-	-	(785,195)	8,964	(776,231)	2,622,063	1,845,832	17,218
Issue of shares	1,439,000	4,879,851	-	-	-	-	4,879,851	-	6,318,851	-
Dividends declared and paid (note 14)	-	-	-	-	-	-	(1,630,684)	(1,630,684)	(41,484)	(1,672,168)
Balance as at 30 June 2017	9,592,419	9,719,660	3,200,146	8,020,433	(1,499,023)	42,781	19,483,997	13,302,823	42,379,239	1,970,197

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Audited									
	Attributable to equity holders of the parent company									
	Reserves									
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans	Subtotal	Retained profits	Total	Non-controlling interests
Balance at 1 January 2017	8,153,419	4,839,809	3,200,146	8,020,433	(713,828)	33,817	15,380,377	12,311,444	35,845,240	1,994,463
Profit for the year	-	-	-	-	-	-	-	5,708,718	5,708,718	182,273
Other comprehensive income	-	-	-	-	(1,309,889)	-	(1,309,889)	-	(1,309,889)	-
- Change in fair value of available-for-sale investments, net of tax	-	-	-	-	(1,309,889)	-	(1,309,889)	-	(1,309,889)	-
- Remeasurement gains on defined benefit plans	-	-	-	-	-	34,350	34,350	-	34,350	-
Total comprehensive income	-	-	-	-	(1,309,889)	34,350	(1,275,539)	5,708,718	4,433,179	182,273
Issue of shares	1,654,850	5,600,957	-	-	-	-	5,600,957	-	7,255,807	-
Acquisition of non-controlling interests	-	(32,199)	-	-	-	-	(32,199)	-	(32,199)	(31,601)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	329,553
Shareholders' donation	-	173,172	-	-	-	-	173,172	-	173,172	-
Appropriation to surplus reserve (i)	-	-	577,286	-	-	-	577,286	(577,286)	-	-
Appropriation to general reserve (ii)	-	-	-	697,785	-	-	697,785	(697,785)	-	-
Dividends declared and paid	-	-	-	-	-	-	-	(1,630,684)	(1,630,684)	(41,484)
Balance at 31 December 2017	9,808,269	10,581,739	3,777,432	8,718,218	(2,023,717)	68,167	21,121,839	15,114,407	46,044,515	2,433,204

(i) Includes the appropriation made by subsidiaries in the amount of RMB40,200 thousand.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB88,517 thousand.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

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

		Six months ended 30 June	
	Notes	2018 (Unaudited)	2017 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,333,367	3,414,660
Adjustments for:			
Depreciation and amortisation	11	265,446	250,134
Depreciation of investment properties		11,233	13,377
Net trading income	8	(2,570,849)	(483,169)
Interest income on financial investments		(2,844,287)	(6,259,171)
Impairment losses on assets	12	1,000,360	488,016
Unrealised foreign exchange (gains)/losses		(116,247)	93,061
Interest expense on debt securities		2,291,479	2,402,143
Accreted interest on impaired loans	21	(84,305)	(37,996)
Net losses on financial investments	9	1,041,123	1,336,357
Net (gains)/losses on disposal of property and equipment	10	(2,372)	1,130
		3,324,948	1,218,542
Net decrease/(increase) in operating assets:			
Balances with central bank		7,751,548	(6,034,473)
Deposits with banks and other financial institutions		(1,282,343)	4,325,357
Placements with banks and other financial institutions		(4,859,060)	(4,903,225)
Reverse repurchase agreements		(598,052)	(10,815,211)
Loans and advances to customers		(51,355,303)	(30,160,853)
Other assets		(989,599)	(379,550)
		(51,332,809)	(47,967,955)
Net increase/(decrease) in operating liabilities:			
Due to central bank		916,382	767,000
Due to banks and other financial institutions		18,637,714	(7,870,438)
Placements from banks and other financial institutions		(168,010)	1,645,564
Repurchase agreements		(9,501,223)	(31,205,194)
Due to customers		4,721,270	17,164,920
Other liabilities		2,641,960	(1,403,702)
		17,248,093	(20,901,850)
Cash outflow used in operating activities		(30,759,768)	(67,651,263)
Income tax paid		(1,237,209)	(1,580,102)
Net cash flows used in operating activities		(31,996,977)	(69,231,365)

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

		Six months ended 30 June	
	Notes	2018 (Unaudited)	2017 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other long-term assets		(1,881,217)	(253,359)
Proceeds from disposal of property and equipment		4,690	449
Cash paid for investments		(86,555,234)	(169,419,222)
Proceeds from sale and redemption of investments		78,853,042	146,222,913
Return on investments		5,032,545	4,601,742
Net cash flows from investing activities		(4,546,174)	(18,847,477)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares		–	6,318,851
Capital contributed by non-controlling shareholders		130,000	–
Shareholders' donation		82,844	73,808
Proceeds from issuance of debt securities		37,050,071	114,244,101
Repayment of debt securities issued		(41,566,668)	(80,486,396)
Interest paid on debt securities		(1,976,220)	(1,704,666)
Dividends paid on ordinary shares		–	(1,630,684)
Dividends paid to non-controlling shareholders		(11,262)	(41,484)
Net cash flows from financing activities		(6,291,235)	36,773,530
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the period		109,247,230	106,196,081
Effect of exchange rate changes on cash and cash equivalents		19,990	(124,398)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	35	66,432,834	54,766,371
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES INCLUDE:			
Interest received		9,828,347	8,591,401
Interest paid		(5,618,768)	(6,762,399)

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



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

1. CORPORATE INFORMATION AND STRUCTURE

Guangzhou Rural Commercial Bank Co., Ltd. (the “Bank”), whose predecessor was established in 1952, underwent a series of reforms in subsequent years. With the “Approval Regarding the Opening of Guangzhou Rural Commercial Bank Co., Ltd.” (Yinjianfu No. [2009]484) issued by the China Banking Regulatory Commission (the “CBRC”), Guangzhou Rural Commercial Bank Co., Ltd. was incorporated on 9 December 2009.

The Bank obtained its finance permit No. B1048H244010001 from the CBRC and its business license of Unified Social Credit code No. 914401017083429628 from the Administration for Industry and Commerce of Guangzhou Municipality. The legal representative is Wang Jikang and the registered office is located at No.9 Yingri Road, Huangpu District, Guangzhou, the PRC.

The principal activities of the Bank comprise taking deposits from the general public (including domestic and foreign currency), granting short, medium and long-term loans (including domestic and foreign currency), domestic and international settlements, bills acceptance and discounting, providing agency services for issuing/redemption and underwriting of government bonds, trading government and financial bonds, inter-bank placements (including domestic and foreign currency), bank cards (including debit cards and credit cards) business, providing agency services of payment collection and insurance agency service, providing safe locker service, foreign currency remittance, foreign currency exchange, foreign exchange purchases and sales against Renminbi (“RMB”), foreign credit investigations, advisory and attestation service; fund and insurance trusteeship; financing service; agency services for funds; e-bank services; securitization of credit assets, and other financial business activities approved by the CBRC.

The Bank’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 20 June 2017.

The Bank and its subsidiaries are collectively referred to as the “Group”. As at 30 June 2018, the Bank had a total of 27 subsidiaries, including 25 county banks, a financial leasing company and a rural commercial bank, which are located in Guangdong, Shandong, Jiangsu, Hunan, Henan, Sichuan, Liaoning, Jiangxi and Beijing. The details of the Bank’s subsidiaries as at 30 June 2018 are as follows:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. CORPORATE INFORMATION AND STRUCTURE (cont'd)

Name	Place of registration	Registered capital (in thousand)	Percentage of equity interests held by the Bank	Percentage of voting rights held by the Bank	Principal activities
Laiwu Zhujiang County Bank	Laiwu, Shandong Province	60,000	51.00%	51.00%	Banking
Jiangsu Xuyi Zhujiang County Bank	Xuyi, Jiangsu Province	50,000	51.00%	51.00%	Banking
Jiangsu Qidong Zhujiang County Bank	Qidong, Jiangsu Province	100,000	51.00%	51.00%	Banking
Changning Zhujiang County Bank	Changning, Hunan Province	50,000	51.00%	51.00%	Banking
Laizhou Zhujiang County Bank	Laizhou, Shandong Province	80,000	51.00%	51.00%	Banking
Haiyang Zhujiang County Bank	Haiyang, Shandong Province	70,000	51.00%	51.00%	Banking
Huixian Zhujiang County Bank	Huixian, Henan Province	60,000	35.00% (i)	51.00%	Banking
Pengshan Zhujiang County Bank	Pengshan, Sichuan Province	50,000	35.00% (i)	51.00%	Banking
Xinjin Zhujiang County Bank	Xinjin, Sichuan Province	100,000	35.00% (i)	53.00%	Banking
Guanghan Zhujiang County Bank	Guanghan, Sichuan Province	100,000	35.00% (i)	51.00%	Banking
Dalian Baoshuiqu Zhujiang County Bank	Dalian Bonded Area, Liaoning Province	100,000	35.00% (i)	56.00%	Banking
Jizhou Zhujiang County Bank	Jian, Jiangxi Province	87,820	33.79% (i)	57.19%	Banking
Heshan Zhujiang County Bank	Heshan, Guangdong Province	150,000	34.00% (i)	71.00%	Banking
Beijing Mentougou Zhujiang County Bank	Mentougou District, Beijing	100,000	51.00%	51.00%	Banking
Xinyang Zhujiang County Bank	Xinyang, Henan Province	414,200	39.60% (i)	54.13%	Banking
Yantai Fushan Zhujiang County Bank	Yantai, Shandong Province	100,000	93.00%	100.00%	Banking
Anyang Zhujiang County Bank	Anyang, Henan Province	60,000	35.00% (i)	51.00%	Banking
Qingdao Chengyang Zhujiang County Bank	Chengyang District, Qingdao, Shandong Province	100,000	35.00% (i)	51.00%	Banking
Suzhou Wuzhong Zhujiang County Bank	Wuzhong District, Suzhou, Jiangsu Province	150,000	51.00%	51.00%	Banking
Sanshui Zhujiang County Bank	Foshan, Guangdong Province	200,000	33.40% (ii)	50.50%	Banking
Zhongshan Dongfeng Zhujiang County Bank	Dongfeng, Guangdong Province	150,000	35.00% (ii)	35.00%	Banking
Xingning Zhujiang County Bank	Meizhou, Guangdong Province	50,000	34.00% (i)	100.00%	Banking
Shenzhen Pingshan Zhujiang County Bank	Shenzhen, Guangdong Province	300,000	35.00% (i)	83.00%	Banking
Dongguan Huangjiang Zhujiang County Bank	Dongguan, Guangdong Province	150,000	35.00% (i)	100.00%	Banking
Zhengzhou Zhujiang County Bank	Zhengzhou, Henan Province	200,000	35.00% (i)	90%	Banking
Zhuzhou Zhujiang Rural Commercial Bank ("ZZRCB")	Zhuzhou, Hunan Province	600,000	51.00%	61.00%	Banking
Zhujiang Financial Leasing Co., Ltd.	Guangzhou, Guangdong Province	1,000,000	100.00%	100.00%	Financial leasing

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

1. CORPORATE INFORMATION AND STRUCTURE (cont'd)

- (i) The Bank holds less than majority equity interests in these subsidiaries. In accordance with the agreements to act in concert entered into by the Bank and the non-controlling shareholders, the non-controlling shareholders vote consistently with the Bank in deciding the financial and operating policies. Hence, the management of the Bank believes that the Bank obtains controls over these subsidiaries.
- (ii) The Bank holds less than majority equity interests in these subsidiaries. According to their respective articles of association, the appointment of the board of directors are subject to approval by two-third majority votes. Through appointing or approving the appointment of the key management of these subsidiaries, including the chairman, vice president and directors of risk management and finance, the Bank has exposure to variable returns from its involvement in the relevant operations of these subsidiaries and the ability to affect the returns through the power over these subsidiaries. Management of the Bank believes that the Bank obtains controls over these subsidiaries.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

2.1 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2018

On 1 January 2018, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

Amendments to IAS 40 *Transfers of Investment Property*

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2018 (cont'd)

Amendments to IFRS 2 Share-based Payment Transactions

The IASB issued amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

Amendments to IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

IFRS 9 Financial Instruments

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

Classification and measurement

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

Business model

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

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2018 (cont'd)

Classification and measurement (cont'd)

Characteristics of the contractual cash flows

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

Impairment

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

Hedge accounting

The new hedge accounting model aims to provide a better link among an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to continue to apply the existing hedge accounting requirements in IAS 39. The Group chose to adopt the new hedge accounting requirements in IFRS 9 from 1 January 2018. The adoption of the hedge accounting requirements of IFRS 9 has no significant impact on the Group's financial statements.

The impacts of transition to IFRS 9

Considering the impact of this standard on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 shareholders' equity at the adoption date, but did not restate comparative periods. The impact of the Group's adoption of IFRS 9 is disclosed in Note 4.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2018 (cont'd)

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

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

Annual Improvements to IFRSs 2014-2016 Cycle

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

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP IN 2018

		Effective for annual periods beginning on or after
IFRS 16	<i>Leases</i>	1 January 2019
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Annual Improvements 2015-2017 Cycle	<i>Amendments to a number of IFRSs</i>	1 January 2019
IFRS 17	<i>Insurance Contracts</i>	1 January 2021
IFRS 10 and IAS 28 Amendments	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective date has been deferred

The Group is considering the impact of these standards and amendments on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Except for the adoption of IFRS 9 where ECL models and assumptions have been applied (as referred in Note 42(a)), the nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

4. TRANSITION DISCLOSURES

4.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9

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

	IAS 39 measurement		Re-classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Cash and balances with central bank	L&R	103,767,440	–	(16,977)	–	103,750,463	AC
Deposits with banks and other financial institutions	L&R	14,443,630	–	(3,223)	–	14,440,407	AC
Placements with banks and other financial institutions	L&R	6,606,541	–	(1,180)	–	6,605,361	AC
Reverse repurchase agreements	L&R	76,393,395	–	(12,759)	–	76,380,636	AC
Loans and advances to customers, net	L&R	285,701,697	–	(277,110)	–	285,424,587	AC/FVOCI
To: Loans and advances to customers at FVOCI	L&R		(4,927,972)				FVOCI
From: Loans and advances to customers at AC	L&R		4,927,972				AC
Financial investments – L&R	L&R	90,919,325	(90,919,325)	–	–	N/A	
To: Financial assets at AC			(38,269,604)				
To: Financial assets at FVOCI			(17,542,307)				
To: Financial assets at FVPL			(35,107,414)				
Financial investments – AFS	AFS	68,876,564	(68,876,564)	–	–	N/A	
To: Debt instruments at FVOCI			(35,052,601)				
To: Other financial assets at FVOCI			(584,413)				
To: Financial assets at FVPL			(33,239,550)				
Financial investments – HTM	HTM	59,902,988	(59,902,988)	–	–	N/A	
To: Financial assets at AC			(59,902,988)				

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018
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4. TRANSITION DISCLOSURES (cont'd)

4.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9 (cont'd)

	IAS 39 measurement		Re-classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Financial assets at AC		N/A	98,172,592	(374,116)	–	97,798,476	AC
From: Financial investments – HTM			59,902,988	(23,466)	–		
From: Financial investments – L&R			38,269,604	(350,650)	–		
Financial assets at FVOCI		N/A	53,179,321	(282,272)	473,523	53,370,572	FVOCI
From: Financial investments – AFS			35,637,014	(1,976)	1,976		
From: Financial investments – L&R			17,542,307	(280,296)	471,547		
Financial assets at FVPL – Held for trading	FVPL	15,270,181	68,398,986	–	211,605	83,880,772	FVPL
From: Repossessed assets			52,022	–	12,725		
From: Financial investments – AFS			33,239,550	–	–		
From: Financial investments – L&R			35,107,414	–	198,880		
Other assets		13,831,899	(52,022)	238,615	(120,016)	13,898,476	
Include: Deferred tax assets		3,634,745	–	268,890	(120,016)	3,783,619	
Total assets		<u>735,713,660</u>	<u>–</u>	<u>(729,022)</u>	<u>565,112</u>	<u>735,549,750</u>	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

4. TRANSITION DISCLOSURES (cont'd)

4.1 Transition disclosures of the balances in financial statements from IAS 39 to IFRS 9 (cont'd)

	IAS 39 measurement		Re-classification	Remeasurement		IFRS 9	
	Category	Amount		ECL	Other	Amount	Category
Due to central bank	AC	(1,130,600)	-	-	-	(1,130,600)	AC
Deposits from banks and other financial institutions	AC	(43,470,165)	-	-	-	(43,470,165)	AC
Placements from banks and other financial institutions	AC	(3,572,433)	-	-	-	(3,572,433)	AC
Repurchase agreements	AC	(23,829,470)	-	-	-	(23,829,470)	AC
Due to customers	AC	(488,671,856)	-	-	-	(488,671,856)	AC
Debt securities issued	AC	(101,383,777)	-	-	-	(101,383,777)	AC
Other liabilities	N/A	(25,177,640)	-	(282,712)	-	(25,460,352)	N/A
Total liabilities		(687,235,941)	-	(282,712)	-	(687,518,653)	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018
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4. TRANSITION DISCLOSURES (cont'd)

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

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

Measurement Category	Provisions under IAS 39/IAS 37 at 31 December 2017	Re-classification	Re-measurement	ECLs under IFRS 9 at 1 January 2018
L&R investment securities per IAS 39/financial assets at AC under IFRS 9				
Balances with central bank	–	–	16,977	16,977
Deposits with banks and other financial institutions	–	–	3,223	3,223
Placements with banks and other financial institutions	–	–	1,180	1,180
Repurchase agreements	–	–	12,759	12,759
Loans and advances to customers, net	8,261,438	–	277,110	8,538,548
Financial investments	112,836	–	350,650	463,486
HTM investment securities per IAS 39/financial assets at AC under IFRS 9				
Financial investments	10,101	–	23,466	33,567
L&R investment securities per IAS 39/financial assets at FVOCI under IFRS 9				
Financial investments	207,759	–	294,870	502,629
Loans and advances to customers, net	50,138	–	(14,574)	35,564
AFS investment securities per IAS 39/financial assets at FVOCI under IFRS 9				
Financial investments	–	–	1,976	1,976
L&R investment securities per IAS 39/financial assets at FVPL under IFRS 9				
Financial investments	105,602	(105,602)	–	–
Credit commitments (i)	–	–	282,712	282,712
Others	672,100	(127,227)	30,275	575,148
Total	9,419,974	(232,829)	1,280,624	10,467,769

- (i) The Group presents the impairment allowance for credit commitments in “other liabilities - provision”. The cumulative effect of the re-measurement of impairment losses related to credit commitment is included in the undistributed profit at the beginning of the period.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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5. OPERATING SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into four different operating segments as follows:

Corporate banking

The corporate banking segment covers the provision of financial products and services to corporate customers. The products and services include deposits, loans, settlement and clearing and others relating to trading business.

Retail banking

The retail banking segment covers the provision of financial products and services to individual customers. The products and services include deposits, bank cards and credit cards, personal loans and collateral loans, and personal wealth management services.

Financial market business

The financial market business segment covers money market placements, investments and repurchasing, foreign exchange transactions for the Group's own accounts or on behalf of customers.

Others

This segment represents business other than corporate banking, retail banking and financial market business, whose assets, liabilities, income and expenses cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

Inter-segment transfer price is calculated in accordance with the sources and funding period, matching the interest rates announced by the People's Bank of China (the "PBOC") and the interbank market rates. Expenses are allocated between segments based on benefits.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018
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5. OPERATING SEGMENT INFORMATION (cont'd)

(a) Operating segments (cont'd)

	Corporate banking	Retail banking	Financial market business	Others	Total
For the six-month period ended 30 June 2018 (Unaudited)					
Interest income	6,231,357	2,574,490	5,033,764	–	13,839,611
Interest expense	(2,477,368)	(1,841,292)	(3,931,768)	–	(8,250,428)
Internal net interest income/ (expense)	90,959	2,080,733	(2,171,692)	–	–
NET INTEREST INCOME	3,844,948	2,813,931	(1,069,696)	–	5,589,183
Fee and commission income	552,609	422,685	85,876	–	1,061,170
Fee and commission expense	(63,119)	(26,211)	(5,895)	–	(95,225)
NET FEE AND COMMISSION INCOME	489,490	396,474	79,981	–	965,945
Net trading income	–	–	2,570,849	–	2,570,849
Net losses on financial investments	–	–	(1,041,123)	–	(1,041,123)
Other income, gains or losses	75,355	(978)	(24)	16,032	90,385
OPERATING INCOME	4,409,793	3,209,427	539,987	16,032	8,175,239
Operating expenses	(889,140)	(1,672,506)	(246,988)	(32,878)	(2,841,512)
Impairment losses on assets	(865,586)	(319,849)	185,973	(898)	(1,000,360)
PROFIT BEFORE TAX	2,655,067	1,217,072	478,972	(17,744)	4,333,367
Income tax expense					(942,030)
PROFIT FOR THE PERIOD					3,391,337
Other segment information:					
Depreciation and amortisation	83,377	172,965	5,389	14,948	276,679
Capital expenditure	590,890	1,225,801	38,189	26,337	1,881,217
As at 30 June 2018 (Unaudited)					
Segment assets	235,239,458	104,450,454	410,841,464	3,104,927	753,636,303
Segment liabilities	(274,669,733)	(245,085,545)	(180,756,818)	(2,118,615)	(702,630,711)
Other segment information:					
Credit commitments	103,574,633	21,197,369	–	–	124,772,002

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

5. OPERATING SEGMENT INFORMATION (cont'd)

(a) Operating segments (cont'd)

	Corporate banking	Retail banking	Financial market business	Others	Total
For the six-month period ended					
30 June 2017 (Unaudited)					
Interest income	4,478,151	2,190,739	8,275,096	–	14,943,986
Interest expense	(2,240,955)	(2,058,987)	(4,593,083)	–	(8,893,025)
Internal net interest income/ (expense)	476,772	1,937,147	(2,413,919)	–	–
NET INTEREST INCOME	2,713,968	2,068,899	1,268,094	–	6,050,961
Fee and commission income	645,191	388,846	136,557	–	1,170,594
Fee and commission expense	(66,988)	(25,401)	(13,492)	–	(105,881)
NET FEE AND COMMISSION INCOME	578,203	363,445	123,065	–	1,064,713
Net trading income	–	–	483,169	–	483,169
Net gains/(losses) on financial investments	–	–	(1,337,887)	1,530	(1,336,357)
Other income, gains or losses	(53,402)	270	(2,879)	35,351	(20,660)
OPERATING INCOME	3,238,769	2,432,614	533,562	36,881	6,241,826
Operating expenses	(650,496)	(1,298,577)	(323,639)	(66,438)	(2,339,150)
Impairment losses on assets	(299,556)	(219,390)	30,930	–	(488,016)
PROFIT BEFORE TAX	2,288,717	914,647	240,853	(29,557)	3,414,660
Income tax expense					(775,379)
PROFIT FOR THE PERIOD					2,639,281
Other segment information:					
Depreciation and amortisation	68,435	155,088	17,956	22,032	263,511
Capital expenditure	69,318	157,088	18,187	8,766	253,359
As at 30 June 2017 (Unaudited)					
Segment assets	178,780,422	88,825,394	409,177,356	3,265,854	680,049,026
Segment liabilities	(233,122,940)	(226,616,509)	(175,861,009)	(99,132)	(635,699,590)
Other segment information:					
Credit commitments	91,304,037	18,882,163	–	–	110,186,200

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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5. OPERATING SEGMENT INFORMATION (cont'd)

(b) Geographic information

The Bank mainly operates in Guangdong Province, China. The main clients and non-current assets are located in Guangdong Province, China.

6. NET INTEREST INCOME

	Six months ended 30 June	
	2018	2017
Interest income on:		
Loans and advances to customers	9,089,811	7,055,191
– Corporate loans and advances	6,269,897	4,526,772
– Personal loans	2,615,779	2,255,910
– Discounted bills	204,135	272,509
Reverse repurchase agreements	950,327	674,894
Financial investments	2,844,287	6,259,171
Due from central bank	550,773	518,637
Deposits and placements with banks and other financial institutions	404,413	436,093
Subtotal	13,839,611	14,943,986
Interest expense on:		
Due to customers	(4,434,388)	(4,354,719)
Repurchase agreements	(290,708)	(308,860)
Deposits and placements from banks and other financial institutions	(981,184)	(1,656,538)
Debt securities issued	(2,291,479)	(2,402,143)
Other borrowings (i)	(237,825)	(161,492)
Others	(14,844)	(9,273)
Subtotal	(8,250,428)	(8,893,025)
Net interest income	5,589,183	6,050,961
Including: interest income on impaired loans	84,305	37,996
Interest income from:		
Listed debt instruments	3,534,412	5,039,311
Unlisted debt instruments	10,305,199	9,904,675
Total	13,839,611	14,943,986

- (i) The interest expense for the long-term and short-term borrowings was incurred by Zhujiang Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2018	2017
Fee and commission income:		
Bank card fees	296,663	223,422
Advisory and consultancy fees	263,802	409,952
Agency and custodian service fees	205,792	210,580
Wealth management product related fee income	82,576	127,862
Settlement and electronic channel business fees	60,853	61,058
Financial lease business	53,928	55,401
Foreign exchange business	48,680	24,162
Others	48,876	58,157
Subtotal	1,061,170	1,170,594
Fee and commission expense:		
Settlement and electronic channel business fees	(10,490)	(8,309)
Bank card fees	(15,994)	(13,600)
Others	(68,741)	(83,972)
Subtotal	(95,225)	(105,881)
Net fee and commission income	965,945	1,064,713

8. NET TRADING INCOME

	Six months ended 30 June	
	2018	2017
Debt securities and other investments:		
Unrealised gains from debt securities	1,201,080	48,188
Realised gains from debt securities	1,083,090	214,737
	2,284,170	262,925
Funds:		
Realised gains from funds	272,858	205,589
Unrealised gains from funds	13,821	14,655
	286,679	220,244
Total	2,570,849	483,169

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets at fair value through profit or loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018
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9. NET LOSSES ON FINANCIAL INVESTMENTS

	Six months ended 30 June	
	2018	2017
Net losses of financial assets	(1,043,391)	–
Losses on disposal of available-for-sale financial assets	–	(1,337,887)
Others	2,268	1,530
Total	(1,041,123)	(1,336,357)

10. OTHER INCOME, GAINS OR LOSSES

	Six months ended 30 June	
	2018	2017
Net gains/(losses) on disposal of property and equipment	2,372	(1,130)
Net losses on sale of repossessed assets	(3,672)	(33,273)
Net gains/(losses) from foreign exchange	73,860	(53,136)
Net rental income	4,413	4,467
Government grants and subsidies	14,828	44,556
Penalty and compensation payment	2,662	1,298
Donations	(1,123)	(3,460)
Others	(2,955)	20,018
Total	90,385	(20,660)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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11. OPERATING EXPENSES

	Six months ended 30 June	
	2018	2017
Staff costs:		
Salaries, bonuses and allowances	1,326,307	907,969
Social insurance	53,723	54,653
Housing fund	89,881	91,775
Employee benefits	94,945	81,078
Labour union expenditure and education costs	31,157	35,838
Benefits for early retirement and supplemental retirement	62,753	28,074
Defined contribution plans	148,526	167,294
Others	2,939	2,580
Subtotal	1,810,231	1,369,261
General and administrative expenses	531,212	497,302
Tax and surcharges	91,709	79,630
Depreciation and amortisation	265,446	250,134
Rental expense	142,914	142,823
Total	2,841,512	2,339,150

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For the six months ended 30 June 2018
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12. IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June 2018
Loans and advances	
– loans and advances measured at amortised cost	987,210
– loans and advances measured at fair value through other comprehensive income	23,293
Subtotal	1,010,503
Financial investments	
– financial assets at amortised cost	(94,830)
– financial assets at fair value through other comprehensive income	(44,878)
Subtotal	870,795
Credit commitments	100,153
Other assets	29,412
Total	1,000,360

	Six months ended 30 June 2017
Impairment losses on:	
Loans and advances to customers	518,946
Placements with banks and other financial institutions	26,482
Receivables	(61,640)
Interest receivable	(3,413)
Other assets	7,641
Total	488,016

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13. INCOME TAX EXPENSE

(a) Income tax

	Six months ended 30 June	
	2018	2017
Current income tax	1,039,804	593,468
Deferred income tax	(97,774)	181,911
	942,030	775,379

(b) Reconciliation between income tax and accounting profit

The PRC income tax has been provided at the applicable tax rate on the estimated assessable profits for the six-month periods ended 2017 and 30 June 2018 based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Six months ended 30 June	
	2018	2017
Profit before tax	4,333,367	3,414,660
Tax at the PRC statutory income tax rate	1,083,342	853,665
Non-deductible expenses	26,728	27,799
Non-taxable income (i)	(166,007)	(117,378)
Underprovision/(overprovision) in respect of prior years	(2,033)	15,094
Effect of change in tax rates	—	(3,801)
Tax expense at the Group's effective income tax rate	942,030	775,379

- (i) The non-taxable income mainly represents interest income arising from the PRC government bonds and the distribution from money market funds, which are exempted from income tax, under Chinese tax regulations.

14. DIVIDENDS

	Six months ended 30 June	
	2018	2017
Dividends on ordinary shares declared and paid:		
Final dividend	1,961,654	1,630,684
Dividend per share (in RMB yuan)	0.20	0.20

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15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Six months ended 30 June	
	2018	2017
Earnings:		
Profit attributable to equity holders of the parent company	3,321,637	2,622,063
Shares:		
Weighted average number of ordinary shares in issue (in thousands)	9,808,269	8,240,872
Basic and diluted earnings per share (in RMB yuan)	0.34	0.32

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

The Group had no dilutive potential shares outstanding during the six-month period ended 30 June 2018 (2017:nil).

16. CASH AND BALANCES WITH CENTRAL BANK

	30 June 2018	31 December 2017
Cash on hand	2,206,767	2,443,043
Mandatory reserves with central bank (i)	62,735,939	69,854,954
Surplus reserves with central bank (ii)	16,544,262	29,874,989
Fiscal deposits with central bank	956,586	1,594,454
Subtotal	80,236,787	101,324,397
Less: Allowance for impairment losses (iii)	(11,641)	–
Subtotal	80,225,146	101,324,397
Total	82,431,913	103,767,440

(i) The Group is required to place mandatory reserve deposits with the PBOC, and these mandatory reserve deposits with the central bank are not available for use in the Group's daily operations. As at 30 June 2018 and 31 December 2017, the mandatory deposit reserve ratios of the Bank and its subsidiaries in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC.

(ii) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

(iii) As at 30 June 2018, the Group included balances with central bank in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months.

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17. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
Nostro accounts:		
Banks operating in Mainland China	8,770,490	11,109,974
Other financial institutions operating in Mainland China	710,448	1,304,771
Banks operating outside Mainland China	1,147,122	2,028,885
Subtotal	10,628,060	14,443,630
Less: Allowance for impairment losses (i)	(3,097)	–
Total	10,624,963	14,443,630

- (i) As at 30 June 2018, the Group included all deposits with banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months.

18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
Placements with banks and other financial institutions:		
Banks operating in Mainland China	5,270,809	5,206,541
Other financial institutions operating in Mainland China	9,162,000	1,400,000
Subtotal	14,432,809	6,606,541
Less: Allowance for impairment losses (i)	(2,835)	–
Total	14,429,974	6,606,541

- (i) As at 30 June 2018, the Group included all placements with banks and other financial institutions in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018	31 December 2017
Debt securities issued by: (i)		
Government	4,596,430	700,325
Financial institutions		
– Policy banks	8,658,289	5,429,762
– Other banks and non-bank financial institutions	11,362,936	481,045
Corporate	2,197,742	1,076,933
Subtotal	26,815,397	7,688,065
Funds and others (ii)	77,295,676	7,582,116
Total	104,111,073	15,270,181

(i) All debt securities of financial assets at fair value through profit or loss are listed in Mainland China.

(ii) Funds and others are unlisted.

20. REVERSE REPURCHASE AGREEMENTS

	30 June 2018	31 December 2017
Reverse repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	32,395,586	50,949,815
Other financial institutions operating in Mainland China	17,527,901	25,443,580
Less: Allowance for impairment losses (i)	(9,493)	–
	49,913,994	76,393,395
Reverse repurchase agreements analysed by collateral:		
Securities	32,250,877	64,032,397
Bills	17,672,610	12,360,998
Less: Allowance for impairment losses (i)	(9,493)	–
Total	49,913,994	76,393,395

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For the six months ended 30 June 2018

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20. REVERSE REPURCHASE AGREEMENTS (cont'd)

As part of the reverse repurchase agreements, the Group has received securities and bills as collateral that it is allowed to sell or repledge in the absence of default by their owners; the fair value of such collateral accepted by the Group was RMB18,092,403 thousand as at 30 June 2018 (31 December 2017: RMB20,969,317 thousand). Included in the above, certain items of collateral were sold or re-pledged by the Bank with a fair value of nil as at 30 June 2018 (31 December 2017: RMB140,057 thousand). These transactions were conducted under standard terms in the normal course of business.

- (i) As at 30 June 2018, the Group included all reverse repurchase agreements in Stage 1, and measured the impairment losses based on expected credit losses in the next 12 months.

21. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers by measurement category

	30 June 2018	31 December 2017
Loans and advances measured at amortised cost		
– Corporate loans and advances	232,688,703	192,541,478
– Discounted bills	306,853	5,219,393
Subtotal	232,995,556	197,760,871
– Personal loans		
Residential mortgages	50,320,692	46,828,065
Personal business loans	28,256,038	26,356,022
Personal consumption loans	14,451,482	15,043,496
Credit cards	8,576,847	8,024,819
Subtotal	101,605,059	96,252,402
Subtotal	334,600,615	294,013,273
Loans and advances measured at fair value through other comprehensive income		
– Discounted bills	11,133,328	–
Total loans and advances to customers	345,733,943	294,013,273
Less: Allowance for loans at amortised cost	(9,699,150)	(8,311,576)
Loans and advances to customers, net	336,034,793	285,701,697
Allowance for loans at fair value through other comprehensive income	(58,857)	–

- (b) Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers are presented in Note 42 (a).

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21. LOANS AND ADVANCES TO CUSTOMERS (cont'd)

(c) Analysis of loans and advances to customers allowance assessments

	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 30 June 2018				
Total loans and advances	321,891,730	18,932,953	4,909,260	345,733,943
Allowance for loans at amortised cost	(3,900,300)	(2,034,440)	(3,764,410)	(9,699,150)
Loans and advances to customers, net	317,991,430	16,898,513	1,144,850	336,034,793

	Identified impaired loans and advances ⁽ⁱⁱ⁾					Identified impaired loans and advances as % of total loans and advances
	Loans and advances for which allowance is collectively assessed ⁽ⁱ⁾	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	
As at 31 December 2017						
Total loans and advances	289,562,636	1,637,665	2,812,972	4,450,637	294,013,273	1.51%
Allowance for impairment losses	(5,265,784)	(1,284,508)	(1,761,284)	(3,045,792)	(8,311,576)	
Loans and advances to customers, net	284,296,852	353,157	1,051,688	1,404,845	285,701,697	

(i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(ii) Impaired loans and advances identified are loans for which objective evidence of impairment exists and which have been

- identified as bearing an impairment loss and assessed either; or
- collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, mainly personal loans which are impaired).

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21. LOANS AND ADVANCES TO CUSTOMERS (cont'd)

(d) **Reconciliation of allowance for impairment losses on loans and advances to customers measured at amortised cost**

	Six months ended 30 June 2018			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2018	3,260,796	1,841,320	3,436,432	8,538,548
Stage conversion	68,765	(218,733)	149,968	–
– Transfers to Stage 1	124,070	(120,015)	(4,055)	–
– Transfers to Stage 2	(47,044)	54,984	(7,940)	–
– Transfers to Stage 3	(8,261)	(153,702)	161,963	–
Impairment losses for the period	570,739	411,853	29,516	1,012,108
Reversal	–	–	(24,898)	(24,898)
Write-off and transfer out	–	–	(250,278)	(250,278)
Recovery of loans and advances written off	–	–	507,975	507,975
Unwinding of discount on allowance	–	–	(84,305)	(84,305)
As at 30 June 2018	3,900,300	2,034,440	3,764,410	9,699,150

(e) **Reconciliation of allowance for impairment losses on loans and advances measured at fair value through other comprehensive income**

	Six months ended 30 June 2018			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL-impaired)	Total
As at 1 January 2018	35,564	–	–	35,564
Stage conversion	(1,844)	1,844	–	–
– Transfers to Stage 2	(1,844)	1,844	–	–
Impairment losses for the period	(12,928)	36,221	–	23,293
As at 30 June 2018	20,792	38,065	–	58,857

	Year ended 31 December 2017		
	Individually assessed	Collectively assessed	Total
At 1 January 2017	1,233,896	6,722,629	7,956,525
Impairment allowances charged	690,534	152,293	842,827
Reversal of impairment allowances	(93,157)	(118,575)	(211,732)
Accreted interest on impaired loans	(73,997)	(14,053)	(88,050)
Write-offs	(814,270)	(475,511)	(1,289,781)
Recoveries of loans and advances previously written off	799,330	244,443	1,043,773
Acquisition of a subsidiary	18,948	39,066	58,014
At 31 December 2017	1,761,284	6,550,292	8,311,576

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22. FINANCIAL INVESTMENTS

	30 June 2018	31 December 2017
Financial assets at fair value through other comprehensive income (a)	50,427,763	–
Financial assets at amortised cost (b)	91,983,306	–
Receivables (c)	–	90,919,325
Held-to-maturity investments (d)	–	59,902,988
Available-for-sale financial assets (e)	–	68,876,564
	142,411,069	219,698,877

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

	30 June 2018	31 December 2017
Debt securities, issued by: (i)		
Government	6,900,689	–
Financial institutions		
– Policy banks	22,512,617	–
– Other banks and non-bank financial institutions	2,604,309	–
Corporate	3,764,746	–
Subtotal	35,782,361	–
Other financial investments (ii)	14,645,402	–
Total	50,427,763	–

(i) All financial assets at fair value through other comprehensive income debt securities are listed in Mainland China.

(ii) All other financial investments are unlisted.

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22. FINANCIAL INVESTMENTS (cont'd)

(b) Financial assets at amortised cost

	30 June 2018	31 December 2017
Debt securities, issued by: (i)		
Government	23,130,641	—
Financial institutions		
– Policy banks	33,979,414	—
– Other banks and non-bank financial institutions	2,597,219	—
Corporate	3,099,815	—
Subtotal	62,807,089	—
Other financial investments	29,550,679	—
Subtotal	92,357,768	—
Allowance for impairment losses	(374,462)	—
Total	91,983,306	—

- (i) Except for the debt security amounting to RMB1,218,086 thousand that are listed in Hong Kong, the remaining financial assets at amortised cost debt securities are listed in Mainland China.

(c) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

	30 June 2018	31 December 2017
Trust fund plans and asset management plans (i)	—	91,345,523
Allowance for impairment losses	—	(426,198)
Including: Individually assessed	—	(167,174)
Collectively assessed	—	(259,024)
Total	—	90,919,325

- (i) The trust fund plans and asset management plans were purchased from trust companies and asset management companies, with no active market quotes. As at 31 December 2017, the definite period lengths are 1 to 60 months.

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22. FINANCIAL INVESTMENTS (cont'd)

(c) Receivables (cont'd)

Movements of allowance for investments classified as receivables are as follows:

	Individually assessed allowance	Collectively assessed allowance	Total
At 1 January 2017	238,104	190,131	428,235
Charge for the year	73,095	201,793	274,888
Reversal for the year	(144,025)	(132,900)	(276,925)
At 31 December 2017	167,174	259,024	426,198

(d) Held-to-maturity investments

Held-to-maturity investments are stated at amortised cost and comprise the following:

	30 June 2018	31 December 2017
Debt securities issued by: (i)		
Government	–	22,497,872
Financial institutions		
– Policy banks	–	32,908,394
– Other banks and non-bank financial institutions	–	2,206,025
Corporate	–	2,300,798
Subtotal	–	59,913,089
Allowance for impairment losses – collectively assessed	–	(10,101)
Total	–	59,902,988
Market value of listed debt securities	–	59,339,547

- (i) Except for the debt security amounting to RMB1,207,890 thousand that are listed in Hong Kong, the remaining held-to-maturity investments debt securities are listed in Mainland China.

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22. FINANCIAL INVESTMENTS (cont'd)

(d) Held-to-maturity investments (cont'd)

Movements of allowance on investments classified as held-to-maturity investments are as follows:

	Collectively assessed allowance
At 1 January 2017	–
Charge for the year	10,101
At 31 December 2017	10,101

(e) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	30 June 2018	31 December 2017
Debt securities, at fair value, issued by: (i)		
Government	–	4,784,494
Financial institutions		
– Policy banks	–	23,296,485
– Other banks and non-bank financial institutions	–	5,405,690
Corporate	–	3,618,700
Subtotal	–	37,105,369
Funds and other investments, at fair value (ii)	–	31,720,041
Equity and other investments, at cost (iii)	–	51,154
Total	–	68,876,564

(i) All available-for-sale debt securities are listed in Mainland China.

(ii) All funds and other investments are unlisted.

(iii) All available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

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23. PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost:						
At 1 January 2017	3,945,362	255,752	563,358	1,216,196	72,469	6,053,137
Additions	88,464	236,801	30,704	71,417	3,014	430,400
CIP transfers	105,219	(165,907)	27,819	32,869	–	–
Acquisition of a subsidiary	95,107	3,875	–	10,068	668	109,718
Disposals	(110)	–	(3,264)	(61,857)	(3,440)	(68,671)
Other transfer-outs	(4,579)	(99,356)	(68,948)	–	–	(172,883)
At 31 December 2017 and 1 January 2018	4,229,463	231,165	549,669	1,268,693	72,711	6,351,701
Additions	39,204	604,507	6,151	22,606	4	672,472
CIP transfers	111,393	(121,574)	7,482	2,699	–	–
Disposals	(2,263)	–	–	(51,078)	(2,700)	(56,041)
Other transfer-outs	–	(4,052)	–	–	–	(4,052)
At 30 June 2018	4,377,797	710,046	563,302	1,242,920	70,015	6,964,080
Accumulated depreciation:						
At 1 January 2017	2,786,179	–	344,899	831,877	64,833	4,027,788
Depreciation charged for the year	190,363	–	71,196	151,752	2,527	415,838
Disposals	(110)	–	(3,264)	(58,463)	(3,426)	(65,263)
Other transfer out	(4,530)	–	(34,634)	–	–	(39,164)
At 31 December 2017 and 1 January 2018	2,971,902	–	378,197	925,166	63,934	4,339,199
Depreciation charged for the period	103,249	–	37,978	65,364	1,198	207,789
Disposals	(2,263)	–	–	(49,462)	(2,085)	(53,810)
At 30 June 2018	3,072,888	–	416,175	941,068	63,047	4,493,178
Net carrying amount:						
At 31 December 2017	1,257,561	231,165	171,472	343,527	8,777	2,012,502
At 30 June 2018	1,304,909	710,046	147,127	301,852	6,968	2,470,902

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23. PROPERTY AND EQUIPMENT (cont'd)

The carrying value of the Group's properties and buildings is analysed based on the remaining terms of the land leases as follows:

	30 June 2018	31 December 2017
Held in Mainland China		
Over 50 years	87,472	170,343
10 to 50 years	1,096,057	1,038,213
	1,183,529	1,208,556

As at 30 June 2018, the process of obtaining the title for the Group's properties and buildings with an aggregate net carrying amount of RMB121,380 thousand (31 December 2017: RMB49,005 thousand) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

As at 30 June 2018 and 31 December 2017, the carrying value of other transfer out from construction in progress was to intangible assets, and the carrying value of other transfer out from properties and buildings was to investment properties.

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24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred taxes relate to the same fiscal authority. As at 30 June 2018, the qualifying amount offset was RMB208 thousand (31 December 2017: RMB211 thousand).

Movements of deferred tax

2018

	Unaudited					
	At 31 December 2017	Impact of adopting IFRS 9	At 1 January 2018	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income (note 34)	At 30 June 2018
Deferred tax assets:						
Allowance for impairment losses	2,440,003	268,890	2,708,893	113,880	–	2,822,773
Change in financial assets at fair value through other comprehensive income	–	441,531	441,531	–	(499,971)	(58,440)
Change in fair value of available-for-sale financial assets	674,576	(674,576)	–	–	–	–
Change in financial assets at fair value through profit or loss	81,607	113,029	194,636	(84,913)	–	109,723
Salaries, bonuses, allowances and subsidies payable	277,951	–	277,951	58,247	–	336,198
Early retirement benefits	26,604	–	26,604	1,723	–	28,327
Provisions	1,173	–	1,173	–	–	1,173
Fair value adjustment arising from acquisition of a subsidiary	9,751	–	9,751	(2,426)	–	7,325
Others	123,291	–	123,291	11,260	–	134,551
Total	3,634,956	148,874	3,783,830	97,771	(499,971)	3,381,630
Deferred tax liabilities:						
Unrealised gains on repossessed assets	211	–	211	(3)	–	208
Total	211	–	211	(3)	–	208

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24. DEFERRED TAX ASSETS AND LIABILITIES (cont'd)

Movements of deferred tax (cont'd)

2017

	At 1 January 2017	Total gains/ (losses) recorded in profit or loss	Audited Total gains/ (losses) recorded in other comprehensive income	Acquisition of a subsidiary	At 31 December 2017
Deferred tax assets:					
Allowance for impairment losses	2,644,509	(204,506)	–	–	2,440,003
Change in fair value of available-for-sale financial assets	237,946	–	436,630	–	674,576
Change in financial assets at fair value through profit or loss	68,798	12,809	–	–	81,607
Salaries, bonuses, allowances and subsidies payable	255,087	22,864	–	–	277,951
Early retirement benefits	30,245	(3,641)	–	–	26,604
Provisions	2,355	(1,182)	–	–	1,173
Fair value adjustment arising from acquisition of a subsidiary	–	–	–	9,751	9,751
Others	39,154	84,137	–	–	123,291
Total	3,278,094	(89,519)	436,630	9,751	3,634,956
Deferred tax liabilities:					
Government grants and subsidies	3,319	(3,319)	–	–	–
Unrealised gains on repossessed assets	1,664	(1,453)	–	–	211
Total	4,983	(4,772)	–	–	211

The Group did not have significant unrecognised deferred tax assets and liabilities as at 30 June 2018 and 31 December 2017. Deferred tax assets have been recognised in respect of the above items as it is considered probable that taxable profits will be available against which the above items can be utilized.

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25. OTHER ASSETS

	30 June 2018	31 December 2017
Interest receivable (a)	4,499,187	5,723,067
Land use rights (b)	179,025	181,371
Receivables and prepayments	1,045,481	325,080
Prepayment for land acquisition	606,948	–
Settlement and clearing accounts	365,002	534,371
Reposessed assets (c)	332,494	380,553
Intangible assets (d)	180,351	208,071
Investment properties	167,061	178,364
Others	68,435	201,559
Prepayment for potential investment	–	70,000
	7,443,984	7,802,436

(a) Interest receivable

	30 June 2018	31 December 2017
Bonds and other investments	2,268,308	4,575,296
Loans and advances to customers	945,086	827,914
Others	1,295,101	364,484
Subtotal	4,508,495	5,767,694
Less: Allowance for impairment losses	(9,308)	(44,627)
	4,499,187	5,723,067

As at 30 June 2018, the Group's interest receivable with aging over one year was RMB69,113 thousand (31 December 2017: RMB70,418 thousand) which mainly arose from bonds and other investments.

(b) Land use rights

	30 June 2018	31 December 2017
Located in Mainland China		
Over 50 years	3,974	3,974
10-50 years	175,051	177,397
	179,025	181,371

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25. OTHER ASSETS (cont'd)

(c) Repossessed assets

	30 June 2018	31 December 2017
Land use rights and buildings	394,182	402,659
Others	–	155,901
Subtotal	394,182	558,560
Less: Allowance for impairment losses	(61,688)	(178,007)
	332,494	380,553

(d) Intangible assets

Intangible assets consist primarily of computer software.

26. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
Deposits:		
Banks operating in Mainland China	51,656,007	29,981,660
Other financial institutions operating in Mainland China	10,451,872	13,488,505
	62,107,879	43,470,165

27. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2018	31 December 2017
Placements:		
Banks operating in Mainland China	2,070,220	1,565,556
Other financial institutions operating in Mainland China	–	200,000
Banks operating outside Mainland China	1,354,027	1,806,877
	3,424,247	3,572,433

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28. REPURCHASE AGREEMENTS

	30 June 2018	31 December 2017
Repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	13,197,437	23,829,470
Other financial institutions	1,130,810	–
Total	14,328,247	23,829,470
Repurchase agreements analysed by collateral:		
Securities	14,328,247	23,829,470

29. DUE TO CUSTOMERS

	30 June 2018	31 December 2017
Demand deposits:		
Corporate customers	106,232,986	119,803,153
Personal customers	95,069,967	92,918,339
	201,302,953	212,721,492
Time deposits:		
Corporate customers	112,199,060	100,321,436
Personal customers	127,987,658	119,845,949
	240,186,718	220,167,385
Pledged deposits	12,318,886	11,443,908
Other deposits (i)	39,606,537	44,339,071
	493,415,094	488,671,856

- (i) As at 30 June 2018, the deposits arising from wealth management products with the principal amount guaranteed by the Group amounted to RMB31,422,505 thousand (31 December 2017: RMB33,047,430 thousand).

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30. DEBT SECURITIES ISSUED

	30 June 2018	31 December 2017
2014 tier two capital bonds (a)	4,096,852	4,097,633
2018 tier two capital bonds-01 (b)	9,998,561	–
	14,095,413	4,097,633
Interbank negotiable certificates of deposit ("NCD") (c)	82,827,076	97,286,144
Total	96,922,489	101,383,777

(a) 2014 Tier two capital bonds

Pursuant to the approval of the PBOC and the CBRC, the Bank issued tier two capital bonds in an amount of RMB4.1 billion in the domestic interbank bond market on 11 September 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 6.26% and annual interest payment on 15 September. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year.

(b) 2018 Tier two capital bonds-01

Pursuant to the approval of the PBOC and the CBRC, the Bank issued tier two capital bonds in an amount of RMB10 billion in the domestic interbank bond market on 23 March 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.9% and annual interest payment on 23 March. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year.

(c) Interbank negotiable certificates of deposit

As at 30 June 2018 and 31 December 2017, the outstanding balance was RMB82,827,076 thousand and RMB97,286,144 thousand, with the interest rates ranging from 4.30% to 5.12% and from 4.20% to 5.00%, respectively, and the amounts would mature within one year.

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31. OTHER LIABILITIES

	30 June 2018	31 December 2017
Interest payable (a)	8,545,808	7,944,259
Payables for commission funds	90,565	90,565
Settlement and clearing accounts	816,368	562,321
Salaries, bonuses, allowances and subsidies payable (b)	2,139,984	1,875,948
Sundry tax payables	483,791	447,548
Reposessed assets collection	15,000	15,000
Non-performing assets collection (c)	72,628	17
Guarantee deposits from lessees (d)	882,855	894,705
Deposits and guarantees received	283,781	38,569
Deposit insurance premium payable	58,131	36,177
Other borrowings (e)	9,553,620	9,092,320
Payable for credit assets securitization	1,457,875	1,588,916
Payable for beneficial rights of credit assets	826,943	653,925
Deferred revenue	229,825	330,065
Provisions	387,555	4,690
– Allowance for litigation losses	4,690	4,690
– Impairment allowance for credit commitments (Note 38(c))	382,865	–
Dividends payable	2,026,174	–
Others	2,146,164	1,038,929
	30,017,067	24,613,954

(a) Interest payable

	30 June 2018	31 December 2017
Deposits and placements from banks and other financial institutions	452,934	241,075
Due to customers	7,642,905	7,518,586
Other borrowings (i)	106,294	84,343
Repurchase agreements	6,104	24,226
Bonds payable	336,227	74,859
Others	1,344	1,170
	8,545,808	7,944,259

- (i) The interest payable arose from the borrowings raised by Zhujiang Financial Leasing Co., Ltd., which is a wholly-owned subsidiary of the Bank.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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31. OTHER LIABILITIES (cont'd)

(b) Salaries, bonuses, allowances and subsidies payable

	30 June 2018	31 December 2017
Salaries, bonuses and allowances	1,391,772	1,207,087
Social insurance	6,407	5,387
Housing fund	285	641
Employee benefits	399	396
Labour union expenditure and education costs	107,009	100,121
Defined contribution plans	15,099	689
Defined benefit plans		
– Supplemental retirement benefits (i)	505,685	455,173
Early retirement benefits	113,312	106,419
Others	16	35
	2,139,984	1,875,948

(i) Supplemental retirement benefits

The movement of supplementary retirement benefits of the Group are as follows:

	30 June 2018	31 December 2017
At 1 January	455,173	459,640
Benefits paid during the period/year	(6,000)	(23,550)
Defined benefit cost recognised in profit or loss	35,326	53,433
Defined benefit cost recognised in other comprehensive income	21,186	(34,350)
At 30 June/31 December	505,685	455,173

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31. OTHER LIABILITIES (cont'd)

(b) Salaries, bonuses, allowances and subsidies payable (cont'd)

(i) Supplemental retirement benefits (cont'd)

The principal actuarial assumptions adopted as at 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018	31 December 2017
Discount rate		
– Normal retirees	3.70%	4.10%
– Early retirees	3.90%	4.35%
Expected growth rate of benefits	0~5%	0~5%
Age of retirement		
– Male	60	60
– Female	50/55	50/55

The assumptions regarding future mortality as at 30 June 2018 and 31 December 2017 are based on the China Life Insurance Mortality table which is the published statistics in Mainland China.

(c) Non-performing assets collection

The promoters of the additional shares issued during the Bank's restructuring donated the Bank's net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Bank. Up to 30 June 2018, the Bank has received accumulative proceeds of RMB2,204,148 thousand (31 December 2017: RMB2,121,304 thousand) from the non-performing assets. The donation procedures of these proceeds amounting to RMB2,131,520 thousand have been completed (31 December 2017: RMB2,121,287 thousand). After deducting income tax of RMB306,013 thousand (31 December 2017: RMB306,013 thousand), the net accumulative proceeds amounting to RMB1,825,507 thousand as at 30 June 2018 (31 December 2017: RMB1,815,274 thousand) have been recorded as capital reserve, and the remaining proceeds amounting to RMB72,628 thousand were recorded as other liabilities and pending for completion of the donation procedures as at 30 June 2018 (31 December 2017: RMB17 thousand).

(d) Guarantee deposits from lessees

The wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., received deposits from lessees when entering into the finance lease contracts. These deposits are interest-free and will be repaid upon maturity of the lease contracts.

(e) Other borrowings

The wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., borrowed long-term and short-term loans for its leasing operation business, with maturity ranging from 3 to 36 months (31 December 2017: from 1 to 36 months) and fixed interest rates ranging from 4.51% to 6.05% (31 December 2017: from 4.80% to 6.00%).

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32. SHARE CAPITAL

	Six months ended 30 June 2018		Year ended 31 December 2017	
	Number of shares	Nominal value	Number of shares	Nominal value
Opening balance	9,808,269	9,808,269	8,153,419	8,153,419
Issuance of shares	–	–	1,654,850	1,654,850
As at 30 June 2018/31 December 2017	9,808,269	9,808,269	9,808,269	9,808,269

33. RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value and shareholders' donation.

(b) Surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the articles of association to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

No appropriation was made to the surplus reserve for the six-month period ended 30 June 2018 (31 December 2017: RMB537,086 thousand).

(c) General reserve

Pursuant to the relevant regulations issued by the Ministry of Finance (the "MOF"), the Bank and its subsidiaries are required to maintain a general reserve within equity, through the appropriation of net profit, which, starting from 1 July 2012, should not be less than 1.5% of the year end balance of their respective risk assets as defined by the regulations by year 2017. No appropriation was made to the general reserve for the six-month period ended 30 June 2018 (31 December 2017: RMB609,268 thousand), and the reserve has reached 1.5% of the period end balance of its risk assets as required at 30 June 2018 (31 December 2017: 1.5%).

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33. RESERVES (cont'd)

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets or the financial assets at FVOCI.

(e) Remeasurement gains on defined benefit plans

Remeasurement gains on defined benefit plans are the actuarial gains or losses of supplemental retirement benefits.

34. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2018	2017
Remeasurement gains on defined benefit plans	(21,186)	8,964
Financial assets at fair value through other comprehensive income		
Changes in the amount for the period	1,914,202	–
Less: Transfer to profit or loss upon disposal	(85,681)	–
Income tax effect (note 24)	499,971	–
Available-for-sale financial assets		
Changes in fair value	–	(1,098,033)
Less: Transfer to profit or loss upon disposal	–	(51,106)
Income tax effect	–	(261,732)
Total	1,478,726	(776,231)

35. ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

On the consolidated statement of cash flows, cash and cash equivalents have an original maturity of less than three months and include the following:

	30 June 2018	31 December 2017
Cash on hand (note 16)	2,206,767	2,443,043
Surplus reserves with central bank (note 16)	16,544,262	29,874,989
Deposits with banks and other financial institutions	4,499,419	9,597,207
Placements with banks and other financial institutions	4,646,383	1,731,294
Reverse repurchase agreements	38,536,003	65,600,697
	66,432,834	109,247,230

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36. TRANSFERS OF FINANCIAL ASSETS

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

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include securities held by counterparties as collateral under repurchase agreements. The counterparties are allowed to sell or repledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. The following table analyses the carrying amounts of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	30 June 2018	31 December 2017
Carrying amount of transferred assets	500,448	2,893,829
Carrying amount of associated liabilities	497,207	2,879,600

Bond lending arrangements

The Group entered into bonds lending agreements with security borrowers to lend out its bond securities classified as financial assets at amortised cost of carrying amount totaling RMB1,050,000 thousand (31 December 2017: nil) and financial assets at fair value through other comprehensive income of carrying amount totaling RMB200,000 thousand as at 30 June 2018 (31 December 2017: nil), which are secured by borrowers' bonds held as collateral. As stipulated in the bonds lending agreements, the legal ownership of these bond securities is transferred to the borrowers. Although the borrowers are allowed to sell these bond securities during the covered period, they have obligations to return these bond securities to the Group at specified future dates and the maximum covered period is 21 days. The Group has determined that it retains substantially all the risks and rewards of these bond securities and therefore has not derecognised them in the consolidated financial statements.

Securitisation transactions

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to a special purpose trust which in turn issues asset-backed securities to investors. As at 30 June 2018, the total carrying amount of the credit assets before being transferred to the special purpose trust was RMB2,418,656 thousand. As the Group has transferred substantially all the risks and rewards, the Group derecognised the transferred credit assets in their entirety in the securitisation transactions. As at 30 June 2018, the corresponding total carrying amount of asset-backed securities held by the Group was RMB200,956 thousand (31 December 2017: RMB326,275 thousand), which represented the Group's maximum exposure to loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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36. TRANSFERS OF FINANCIAL ASSETS (cont'd)

Transfer of beneficial rights of credit assets

The Group enters into credit asset transfer transactions by which it transfers credit assets to the structured entity which sells trust beneficial interests to investors. As at 30 June 2018, the total carrying amount of the credit assets before the transfer transaction was RMB1,103,361 thousand. As the Group transfers substantially all the risks and rewards, the Group derecognised the transferred credit assets in their entirety.

The Group is principally involved with structured entities through financial investments, asset management and securitisation transactions. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out below:

37. INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

Structured entities sponsored by the Group

In conducting wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 30 June 2018, the balance of the unconsolidated non-guaranteed wealth management products sponsored by the Group amounted to RMB89,634,287 thousand (31 December 2017: RMB123,449,770 thousand). During the six-month period ended 30 June 2018, the Group recorded commission income as the manager of these wealth management products amounting to RMB82,576 thousand (for the six-month period ended 30 June 2017: RMB127,862 thousand). The gains from the unconsolidated non-guaranteed wealth management products of the Group are the same as the Bank's maximum exposure to loss from its gains in such business. The Group considered its variable returns from its involvement with the structured entities are not significant and hence it does not consolidate these structured entities.

For the purpose of asset-liability management, the Group's unconsolidated structured entities may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. The Group may enter into repurchase and placement transactions with these unconsolidated structured entities in accordance with market principles. As at 30 June 2018, the balance of the above repurchase and placement transactions was RMB1,000,000 thousand (31 December 2017: nil). The maximum exposure to loss of those placements approximated the carrying amount.

In addition, unconsolidated structured entities sponsored by the Bank also include asset-backed securities. As at 30 June 2018, the total carrying amount of credit assets before being transferred by the Group into the unconsolidated structured entity was RMB3,522,017 thousand. The portion of asset-backed securities issued by the above structured entities and held by the Group is disclosed in note 36.

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37. INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (cont'd)

Structured entities sponsored by other financial institutions

As at 30 June 2018, the interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out below:

	30 June 2018				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total	Maximum exposure to loss
Trust fund plans, asset management plans and funds	74,003,982	14,645,302	29,194,415	117,843,699	117,843,699
Wealth management products	3,090,500	–	–	3,090,500	3,090,500
Assets-backed securities	71,010	31,949	161,850	264,809	264,809
Total	77,165,492	14,677,251	29,356,265	121,199,008	121,199,008

	31 December 2017					
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Receivables	Held-to-maturity investments	Total	Maximum exposure to loss
Trust fund plans, asset management plans and funds	7,582,116	26,610,041	90,919,325	–	125,111,482	125,111,482
Wealth management products	–	5,110,000	–	–	5,110,000	5,110,000
Assets-backed securities	287,407	302,272	–	276,000	865,679	865,679
Total	7,869,523	32,022,313	90,919,325	276,000	131,087,161	131,087,161

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38. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At the end of the period, the Group had capital commitments as follows:

	30 June 2018	31 December 2017
Contracted, but not provided	107,195	157,963
	107,195	157,963

(b) Operating lease commitments

Operating lease commitments – Lessee

During the period, the Group leased certain of their office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	30 June 2018	31 December 2017
Within one year	260,451	275,655
After one year but not more than five years	648,892	694,576
After five years	193,762	210,452
	1,103,105	1,180,683

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

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

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38. COMMITMENTS AND CONTINGENT LIABILITIES (cont'd)

(c) Credit commitments (cont'd)

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limits are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the period had the counterparties failed to perform as contracted.

	30 June 2018	31 December 2017
Bank acceptances	8,773,586	6,517,566
Guarantees issued	17,236,563	14,924,292
Letters of credit issued	1,396,691	1,636,634
Loan commitments (i)	84,209,269	87,366,353
Undrawn credit card limits	13,155,893	12,378,172
Total	124,772,002	122,823,017
Impairment allowance of credit commitments (Note 31)	(382,865)	—

(i) Loan commitments of the Group are the unconditionally revocable loan commitments.

(d) Credit risk-weighted amount of financial guarantees and credit related commitments

	30 June 2018	31 December 2017
Financial guarantees and credit related commitments	18,486,480	16,577,622

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

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38. COMMITMENTS AND CONTINGENT LIABILITIES (cont'd)

(e) Legal proceedings

As at 30 June 2018, the total claimed amounts of the litigation cases of which the Bank or its subsidiaries are the defendant amounted to RMB127,019 thousand (31 December 2017: RMB6,973 thousand). In the opinion of management, the Bank has made adequate provisions for any probable losses based on the current facts and circumstances. The litigation cases are not expected to have a significant impact on the Bank's business, financial condition and performance.

(f) Cooperation fund commitment

As a result of the subscription of shares in the cooperation risk fund established by Asia Financial Cooperation Association, the Bank had rescue bailout commitment to the Association members amounting to RMB90,000 thousand as at 30 June 2018 (31 December 2017: RMB90,000 thousand).

39. FIDUCIARY ACTIVITIES

	30 June 2018	31 December 2017
Designated funds	(13,806,797)	(21,814,375)
Designated loans	13,806,797	21,814,375

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group does not bear any risk. The designated funds represent the funding that the trustors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the trustors.

The Group provides custody services to third parties. Revenue from such activities is included in "Net fee and commission income" set out in note 7 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

40. ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly arising from repurchase agreements and negotiated deposits. As at 30 June 2018, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB18,097,607 thousand (31 December 2017: RMB25,633,386 thousand).

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41. RELATED PARTY DISCLOSURES

(a) Significant related party disclosures

Details of the subsidiaries of the Bank are set out in note 1 Corporate Information and Structure.

(b) Related party transactions

(i) Transactions between the Bank and major shareholders

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

Major transactions between the Group and its major shareholders were conducted under normal commercial terms and conditions in the ordinary course of business. Details are as follows:

	30 June 2018	31 December 2017
Balances at end of the period/year:		
Loans	846,000	840,000
Financial assets through other comprehensive income/Receivables	249,202	250,000
Interest receivable	1,646	1,745
Deposits	118,289	5,029,913
Interest payable	7	5,285

	Six months ended 30 June 2018	2017
Transactions during the period:		
Interest income on loans	25,401	28,463
Interest expense on deposits	736	17,492
Interest rate ranges during the period are as follows:		
Loans	4.35%-7.87%	4.36%-5.23%
Deposits	0.30%-3.20%	0.30%-0.39%
Financial assets through other comprehensive income/Receivables	4.65%	4.65%-5.31%

(ii) Transactions between the Bank and subsidiaries

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements. In the opinion of management, the transactions between the Bank and subsidiaries have no significant impact on profit or loss.

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41. RELATED PARTY DISCLOSURES (cont'd)

(b) Related party transactions (cont'd)

(iii) Transactions between the Bank and other related parties

Other related parties include the companies controlled or jointly controlled by the key management personnel and their close family members. During the period/year, the Group entered into transactions with other related parties in the ordinary course of business. Details are as follows:

	30 June 2018	31 December 2017
Balances at end of the period/year:		
Loans	6,834,124	6,159,253
Interest receivable	10,957	10,367
Deposits	1,790,631	12,190,259
Interest payable	33,129	38,560
	Six months ended 30 June	
	2018	2017
Transactions during the period:		
Interest income on loans	165,240	152,144
Interest expense on deposits	48,137	18,481
Fee and commission income	4,145	34,661
Interest rate ranges during the period are as follows:		
Loans	2.74%-10.00%	2.68%-10.00%
Deposits	0.01%-4.00%	0.05%-2.94%

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41. RELATED PARTY DISCLOSURES (cont'd)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

(i) Transactions between the Bank and key management personnel

	30 June 2018	31 December 2017
Balances at end of the period/year:		
Loans	27,183	35,816
Interest receivable	60	63
Deposits	48,949	221,228
Interest payable	349	447
	Six months ended 30 June 2018	2017
Transactions during the period:		
Interest income on loans	649	811
Interest expense on deposits	956	1,724
Interest rate ranges during the period are as follows:		
Loans	3.25%-9.00%	3.43%-6.00%
Deposits	0.01%-5.40%	0.01%-5.40%

(ii) Key management personnel compensation

The aggregate compensation of key management personnel is as follows:

	Six months ended 30 June 2018	2017
Emoluments and other short-term employee benefits	6,763	8,986

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42. FINANCIAL RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The Board of Directors of the Group is responsible for setting the Group's overall risk tolerance, risk management and internal control strategies, supervising and ensuring that senior management performs risk management duties effectively. The Group has a Related Party Transactions and Risk Management Committee under the Board of Directors, which is responsible for monitoring the risk management of senior management, regularly evaluating the Group's situation of risk management, risk tolerance ability and level, and taking case precautions against, reviewing and controlling the significant related party transactions. The Board of Supervisors is responsible for inspecting the Group's risk management and taking case precautions against, comprehensively evaluating the risk management performance of the directors and senior management. Senior management is responsible for executing the policies of risk management and internal control approved by the Board of Directors, developing the specific rules and regulations of risk management. The Group has a Compliance and Risk Management Committee under senior management, which is responsible for reviewing the Group's significant matters of compliance and risk management.

The Risk Management Department is the lead department of overall risk management, responsible for overall planning and coordination of risk management. The Risk Management Department, Assets Monitoring & Control Department, Company and Finance Interbank Management Department, Compliance and Legal Affairs Department and Asset and Liability Management Department are responsible for leading managing credit risk, market risk, operation risk and liquidity risk. The Internal Audit Department is responsible for supervising, inspecting, evaluating and reporting the risk management's effect independently and objectively.

(a) Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The major credit risk of the Group comes from loans and advances to customers, investment portfolio, commitments and other on-balance sheet and off-balance sheet credit risk exposures.

The Group measures and manages the credit risk of its credit assets through the five-category system based on the "Guideline of Risk-based Classification of Loans" (the "Guideline") issued by the CBRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely normal, special-mention, sub-standard, doubtful and loss categories.

The five categories are defined by the Guideline as follows:

Normal: loans for which borrowers can honor the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring, and management. The Group enhances its credit risk management by strict compliance with its credit management procedures to identify, measure, monitor and manage the potential credit risk, which includes:

- strengthening customer investigation, lending approval and post lending monitoring;
- setting up authorisation limits over loan review and approval;
- establishing the internal assessment system in respect of the credit rating towards different kinds of customers, as the fundamental procedures for granting credit;
- setting up the authority limit over risk classification of credit assets. Review periodically and update risk classification of credit assets, and carry out on-site sample review and off-site review to monitor the risk; and
- implementing and continuously upgrading the Credit Management System based on the requirements of risk management, developing and popularizing various risk management tools.

In respect of the corporate loans, credit managers of the Group are responsible for accepting application from the applicants, carrying out credit investigation and making recommendations on credit rating through credit risk assessment of the applicants and their business. According to the authority limit over credit review and approval, applications will be assessed and authorised at the branch level or/and head office level. The credit limit will be determined based on assessment of the factors including the applicant's credit rating, financial position, collateral and guarantee, the overall credit risk of the portfolio, macro-economic policies, and restriction imposed by laws and regulations. The Group minimise losses over credit risk through: (1) collecting; (2) restructuring; (3) repossessing the collateral or resourcing from the guarantor; (4) seeking arbitration or pursuing lawsuits; and (5) written off according to relevant regulations.

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For the six months ended 30 June 2018
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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Apart from the credit risk exposures on credit-related assets and deposits with banks and other financial institutions, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, centralised trading and setting the authorisation limit. In addition, the Group also provides financial guarantee service to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the contract. Risks arising from financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management procedures and policies. Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. Credit risk affecting the Group is primarily due to loans, debt instruments, guarantees, commitments as well as other risks both on and off the balance sheet.

Impairment assessment

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;
- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;
- Stage 3: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

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

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For the six months ended 30 June 2018

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Impairment assessment (cont'd)

Measurement of ECL (cont'd)

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic condition; and
- The timing of the expected cash inflows.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018
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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Impairment assessment (cont'd)

Criteria for judging significant increases in credit risk

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

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-tier loan classification
- Be listed on the watch-list

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

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For the six months ended 30 June 2018

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Impairment assessment (cont'd)

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

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

Parameters of ECL measurement

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

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For the six months ended 30 June 2018
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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Impairment assessment (cont'd)

Parameters of ECL measurement (cont'd)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;

EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

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

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

In addition to providing a baseline economic scenario, the Group combines statistical analysis with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (stage 1) or life time (stage 2 and stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Impairment assessment (cont'd)

Collateral

The Group implements specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level, the most typical of these is by obtaining collateral and guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of borrowers. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters.

The main types of collateral obtained are as follows:

- personal mortgage loans are generally collateralised by mortgages over residential properties;
- other personal lending and corporate loans and advances are mainly collateralised by charges over land and properties and other assets of the borrowers; and
- reverse repurchase transactions are mainly collateralised by bonds, bills or receivables under finance leases.

Corporate loans are mainly collateralised by properties or other assets. Personal loans are mainly collateralised by residential properties. The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

Risk concentration

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different industrial sectors and geographic areas have their unique characteristics in terms of economic development, and could present a different credit risk.

The Group's main operation is within Guangdong Province. For additional information about the analysis of concentration of loans and advances to customers by industry, please refer to Note 42(a)(ii).

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

Risk concentration (cont'd)

(i) **Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

As at the end of the period/year, the maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

	30 June 2018	31 December 2017
Balances with central bank	80,225,146	101,324,397
Deposits with banks and other financial institutions	10,624,963	14,443,630
Placements with banks and other financial institutions	14,429,974	6,606,541
Financial assets at fair value through profit or loss	104,111,073	15,270,181
Reverse repurchase agreements	49,913,994	76,393,395
Loans and advances to customers	336,034,793	285,701,697
Financial investments		
– Financial assets at fair value through other comprehensive income	50,427,763	–
– Financial assets at amortised cost	91,983,306	–
– Receivables	–	90,919,325
– Held-to-maturity investments	–	59,902,988
– Available-for-sale financial assets	–	68,825,410
Others	5,110,171	6,615,355
Subtotal	742,861,083	726,002,919
Credit commitments	124,772,002	122,823,017
Total maximum credit risk exposure	867,633,085	848,825,936

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(ii) Risk concentrations

By industry

The credit risk exposures of the Group mainly comprise loans and advances to customers, amounts due from banks and other financial institutions and financial investments. Details of the composition of the Group's amounts due from banks and other financial institutions are set out in note 42(a)(v), and the Group's financial investments are set out in note 42(a)(vi) to the financial statements. The composition of the Group's gross loans and advances to customers by industry is analysed as follows:

	30 June 2018		
	Amount	Percentage	Loans and advances secured by collateral
Loans and advances to customers:			
Agriculture, forestry, animal husbandry and fishing	8,074,611	2.34%	5,254,510
Mining	1,122,047	0.32%	501,839
Manufacturing	26,015,955	7.52%	17,105,845
Production and supply of electricity, gas and water	2,805,955	0.81%	1,887,198
Construction	14,700,080	4.25%	9,148,013
Transportation, storage and postal services	12,160,927	3.52%	6,842,429
Information transmission, computer services and software	3,391,608	0.98%	2,439,614
Wholesale and retail trades	35,024,536	10.13%	21,961,909
Accommodation and catering	7,894,115	2.28%	5,370,570
Finance	7,272,973	2.10%	3,229,959
Real estate	54,630,147	15.80%	40,678,281
Leasing and commercial services	40,683,068	11.77%	23,932,851
Scientific research, technological services and geological prospecting	932,555	0.27%	475,612
Water, environment and public utility management	4,738,280	1.37%	1,780,137
Resident, repair and other services	2,057,881	0.60%	1,328,722
Education	5,520,853	1.60%	4,650,479
Health, social security and social welfare	2,863,776	0.83%	1,354,469
Culture, sports and entertainment	2,757,760	0.80%	1,702,921
Public administration and social organisations	41,576	0.02%	6,479
Subtotal for corporate loans and advances	232,688,703	67.31%	149,651,837
Personal loans	101,605,059	29.38%	78,150,737
Discounted bills	11,440,181	3.31%	10,294,890
Total for loans and advances to customers	345,733,943	100.00%	238,097,464

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(ii) Risk concentrations (cont'd)

By industry (cont'd)

31 December 2017

Loans and advances to customers:	Amount	Percentage	Loans and advances secured by collateral
Agriculture, forestry, animal husbandry and fishing	5,212,505	1.77%	3,002,433
Mining	505,960	0.17%	378,321
Manufacturing	21,904,621	7.45%	15,793,194
Production and supply of electricity, gas and water	2,855,931	0.97%	1,907,313
Construction	10,219,924	3.48%	5,145,926
Transportation, storage and postal services	9,553,991	3.25%	5,635,975
Information transmission, computer services and software	3,074,292	1.05%	2,413,928
Wholesale and retail trades	29,360,166	9.99%	18,743,663
Accommodation and catering	7,593,569	2.58%	5,004,016
Finance	5,321,100	1.81%	1,761,445
Real estate	45,968,454	15.61%	33,886,442
Leasing and commercial services	30,017,750	10.21%	19,773,008
Scientific research, technological services and geological prospecting	811,675	0.28%	386,280
Water, environment and public utility management	7,713,316	2.62%	2,977,013
Resident, repair and other services	2,222,934	0.76%	1,428,525
Education	4,697,822	1.60%	3,991,583
Health, social security and social welfare	2,970,171	1.01%	1,256,806
Culture, sports and entertainment	2,490,316	0.85%	1,863,415
Public administration and social organisations	46,981	0.02%	8,350
Subtotal for corporate loans and advances	192,541,478	65.48%	125,357,636
Personal loans	96,252,402	32.74%	73,382,877
Discounted bills	5,219,393	1.78%	4,154,015
Total for loans and advances to customers	294,013,273	100.00%	202,894,528

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For the six months ended 30 June 2018

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(ii) Risk concentrations (cont'd)

By industry (cont'd)

Details of impaired loans in respect of industry sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	30 June 2018						
	Allowance						Write-off for the period
	Gross amount	Impaired loans	Overdue loans	Stage 1	Stage 2	Stage 3	Provision charged for the period
Real estate	54,630,147	182,898	800,875	215,376	281,463	82,416	177,835
Leasing and commercial services	40,683,068	360,887	1,036,711	370,802	602,963	243,532	246,984
Wholesale and retail trades	35,024,536	1,048,386	1,140,877	535,119	252,807	795,396	152,874

31 December 2017							
	Allowance					Provision charged for the year	Write-off for the year
	Gross amount	Impaired loans	Overdue loans	Individually assessed	Collectively assessed		
Real estate	45,968,454	6,626	774,343	1,576	752,278	729,330	10,355
Leasing and commercial services	30,017,750	330,045	359,446	233,045	578,068	819,842	34,243

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

	30 June 2018	31 December 2017
Neither past due nor impaired	337,704,104	287,845,596
Past due but not impaired	3,145,474	1,717,040
Impaired	4,884,365	4,450,637
Subtotal	345,733,943	294,013,273
Less: Allowance for loans at amortised cost	(9,699,150)	(8,311,576)
	336,034,793	285,701,697

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(iii) Loans and advances to customers (cont'd)

Neither past due nor impaired

Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the period/year.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the period/year:

	30 June 2018			31 December 2017		
	Normal	Special Mention	Total	Normal	Special Mention	Total
Unsecured loans	26,664,682	308,306	26,972,988	25,475,051	303,525	25,778,576
Guaranteed loans	75,848,146	1,921,299	77,769,445	60,585,299	2,280,418	62,865,717
Loans secured by mortgages	197,107,397	4,172,223	201,279,620	172,865,665	3,271,833	176,137,498
Pledged loans	31,269,007	413,044	31,682,051	22,842,702	221,103	23,063,805
	330,889,232	6,814,872	337,704,104	281,768,717	6,076,879	287,845,596

Past due but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group that are subject to credit risk and are past due but not impaired as at the end of the period/year:

	30 June 2018			31 December 2017		
	Corporate loans and advances	Personal loans	Total	Corporate loans and advances	Personal loans	Total
Past due for:						
Less than one month	1,482,213	386,109	1,868,322	746,770	411,652	1,158,422
One to two months	384,538	219,311	603,849	63,286	186,574	249,860
Two to three months	500,630	169,363	669,993	215,063	92,044	307,107
Over three months	–	3,310	3,310	–	1,651	1,651
	2,367,381	778,093	3,145,474	1,025,119	691,921	1,717,040
Fair value of collateral held	4,967,012	1,226,106	6,193,118	2,505,014	1,216,733	3,721,747

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For the six months ended 30 June 2018

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(iii) Loans and advances to customers (cont'd)

Impaired

Impaired loans and advances are defined as those loans and advances have objective evidence of impairment as a result of one or more events that occurred after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

The fair values of collateral that the Group held relating to loans determined to be impaired as at 30 June 2018 amounted to RMB3,587,068 thousand (31 December 2017: RMB3,499,265 thousand). The collateral mainly consists of land, buildings and equipment.

Rescheduled loans and advances

Rescheduled loans and advances arise from rescheduling or deferring the repayment terms. Rescheduled loans and advances are under continuous monitoring by the Group.

The contractual amount of rescheduled loans and advances for the Group as at 30 June 2018 was RMB3,301,815 thousand (31 December 2017: RMB3,477,829 thousand).

(iv) Loans and advances to customers three-staging exposure

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

	Six month period ended 30 June 2018			Total
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL- impaired)	
Pass	321,890,008	9,098,313	–	330,988,321
Special-mention	–	9,836,362	24,895	9,861,257
Substandard	–	–	799,320	799,320
Doubtful	–	–	2,676,863	2,676,863
Loss	–	–	1,408,182	1,408,182
Total	321,890,008	18,934,675	4,909,260	345,733,943

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42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(v) Amounts due from banks and other financial institutions

The Group executes regular review and management of credit risk related to individual financial institutions, and sets credit limits for individual banks and other financial institutions that it conducts business with. The balances due from banks and other financial institutions are as follows:

	30 June 2018	31 December 2017
Neither past due nor impaired	74,974,863	97,443,566
Less: Allowance for impairment losses	(5,932)	–
	74,968,931	97,443,566

Neither past due nor impaired

	30 June 2018	31 December 2017
Deposits with banks and other financial institutions	10,628,060	14,443,630
Placements with banks and other financial institutions	14,432,809	6,606,541
Reverse repurchase agreements	49,913,994	76,393,395
	74,974,863	97,443,566

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For the six months ended 30 June 2018

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

42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(vi) Debt instruments

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

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

	30 June 2018	31 December 2017
Neither past due nor impaired	241,550,320	231,439,305
Past due but not impaired	2,916,259	1,519,841
Impaired	2,430,025	2,395,057
Subtotal	246,896,604	235,354,203
Less: Allowance for impairment losses	(374,462)	(436,299)
Total	246,522,142	234,917,904

Neither past due nor impaired

30 June 2018	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Government	23,130,641	6,900,689	4,596,430	34,627,760
Financial institutions				
– Policy banks	33,979,414	22,512,617	8,658,289	65,150,320
– Other banks and non-bank financial institutions	2,597,218	2,604,309	11,362,937	16,564,464
– Corporate	2,949,815	3,764,746	1,993,415	8,707,976
Trust fund plans and asset management plans	29,265,201	12,855,182	74,379,417	116,499,800
Total	91,922,289	48,637,543	100,990,488	241,550,320

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

42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(vi) Debt instruments (cont'd)

Neither past due nor impaired (cont'd)

31 December 2017	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Government	–	22,497,872	4,784,494	700,325	27,982,691
Financial institutions					
– Policy banks	–	32,908,394	23,296,485	5,429,762	61,634,641
– Other banks and non-bank financial institutions	–	2,206,025	5,405,690	481,045	8,092,760
Corporate	–	2,300,798	3,618,700	872,606	6,792,104
Funds and others	–	–	30,200,200	7,582,116	37,782,316
Trust fund plans and asset management plans	89,154,793	–	–	–	89,154,793
Total	89,154,793	59,913,089	67,305,569	15,065,854	231,439,305

Past due but not impaired

Trust fund plans and asset management plans which are past due but not impaired as at 30 June 2018 were RMB2,916,259 thousand (31 December 2017: RMB1,519,841 thousand).

Impaired

30 June 2018	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Corporate	150,000	–	204,327	354,327
Trust fund plans and asset management plans	285,478	1,790,220	–	2,075,698
Total	435,478	1,790,220	204,327	2,430,025

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For the six months ended 30 June 2018

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

42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(vi) Debt instruments (cont'd)

Impaired (cont'd)

31 December 2017	Receivables	Financial assets at fair value through profit or loss	Total
Corporate	–	204,327	204,327
Trust fund plans and asset management plans	2,190,730	–	2,190,730
Total	2,190,730	204,327	2,395,057

Debt securities are analysed by credit rating as follows:

30 June 2018	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
AAA	8,208,400	4,245,812	908,292	13,362,504
AA- to AA+	969,578	2,300,275	1,225,820	4,495,673
No rating (i)	53,629,111	29,236,274	24,681,285	107,546,670
Total	62,807,089	35,782,361	26,815,397	125,404,847

	As at 30 June 2018			Total
	Stage 1	Stage 2	Stage 3	
AAA	12,071,692	382,520	–	12,454,212
AA- to AA+	3,169,922	99,931	–	3,269,853
No rating (i)	82,451,392	263,993	150,000	82,865,385
Total	97,693,006	746,444	150,000	98,589,450

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

42. FINANCIAL RISK MANAGEMENT (cont'd)

(a) Credit risk (cont'd)

(vi) Debt instruments (cont'd)

31 December 2017	Held-to-maturity investments	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
AAA	8,297,766	4,670,872	709,082	13,677,720
AA- to AA+	1,066,740	4,764,673	269,979	6,101,392
No rating (i)	50,538,482	27,669,824	6,709,004	84,917,310
Total	59,902,988	37,105,369	7,688,065	104,696,422

- (i) The no rating debt securities mainly consist of investment and trading securities issued by the MOF, central bank, policy banks and other financial institutions which are creditworthy issuers in the market, but are not rated by independent rating agencies.

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims to:

- optimise the structure of assets and liabilities;
- maintain the stability of the deposit base;
- project cash flows and evaluate the level of current assets; and
- in terms of liquidity of the branches, maintain an efficient internal fund transfer mechanism.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

42. FINANCIAL RISK MANAGEMENT (cont'd)

(c) **Market risk**

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group's market risk contains currency risk, interest rate risk and other price risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly arises from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank uses different management methods to control market risk which comprises trading book and banking book risks respectively.

The Group considers the market risk arising from commodity or stock price fluctuations in respect of its investment portfolios to be immaterial.

(i) **Currency risk**

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly arise from the Group's treasury exposures and foreign exchange business.

(ii) **Interest rate risk**

The Group's bank account interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

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

42. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Capital management

The Group follows the following capital management principles:

- Maintain the high quality and adequacy of capital to meet asset regulatory requirements, support business growth and advance the sustainable development scale in the Group;
- Sufficiently identify, calculate, monitor, mitigate and control various types of risks, ensuring that the capital employed is commensurate with the related risks and the level of risk management of the Group; and
- Optimise asset structure and allocate capital properly, to steadily improve the efficiency and return of capital, and advance the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management by employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis. From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBRC.

The Group's regulatory capital is managed by its Asset and Liability Management Department and consists of the following:

- Common equity tier 1 capital, mainly including share capital, capital reserve, surplus reserve, general reserve, retained profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests; and
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

The Group implements a weighted approach to measuring credit risk-weighted assets, which are determined according to the credit risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee, with adjustments made to reflect the potential losses. Market risk-weighted assets and operational risk weighted assets are calculated using the standardised approach and basic indicator approach, respectively.

The Group takes various measures to manage risk-weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

The Group was in compliance with the capital requirement promulgated by the regulators in the reporting period. There have been no significant changes in the risk management department or in any risk management policies since the year end of 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Debt securities	–	26,571,991	243,406	26,815,397
Funds and other investments	16,376,446	–	60,919,230	77,295,676
Financial assets at fair value through other comprehensive income				
Debt securities	–	35,782,361	–	35,782,361
Other financial investments	–	–	14,645,402	14,645,402
	16,376,446	62,354,352	75,808,038	154,538,836

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Financial assets at fair value through profit or loss				
Debt securities	–	7,483,738	204,327	7,688,065
Funds and other investments	7,582,116	–	–	7,582,116
Available-for-sale financial assets				
Debt securities	–	37,055,094	50,275	37,105,369
Funds and other investments	–	–	31,720,041	31,720,041
	7,582,116	44,538,832	31,974,643	84,095,591

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

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(a) Financial instruments measured at fair value (cont'd)

Determination of fair value and fair value hierarchy (cont'd)

The following tables present the changes in Level 3 assets for the six-month period ended 30 June 2018 and the year ended 31 December 2017:

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Debt securities	Funds and other investments	Other financial investments	Total
At 1 January 2018	239,883	67,870,615	17,925,979	86,036,477
Purchase	–	5,505,057	4,549,655	10,054,712
Transfers into Level 3	–	–	–	–
Total gains and losses				
– profit or loss	3,523	1,296,887	99,234	1,399,644
– other comprehensive income	–	–	3,180	3,180
Settlement	–	(13,753,329)	(7,932,646)	(21,685,975)
At 30 June 2018	243,406	60,919,230	14,645,402	75,808,038

	Financial assets at fair value through profit or loss	Available-for-sale financial assets		
	Debt securities	Debt securities	Funds and other investments	Total
At 1 January 2017	204,327	–	30,462,148	30,666,475
Purchase	–	50,275	29,809,000	29,859,275
Transfers into Level 3	–	–	–	–
Total gains and losses				
– realised loss	–	–	136,779	136,779
– other comprehensive income	–	–	(328,018)	(328,018)
Settlement	–	–	(28,359,868)	(28,359,868)
At 31 December 2017	204,327	50,275	31,720,041	31,974,643

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(a) Financial instruments measured at fair value (cont'd)

Determination of fair value and fair value hierarchy (cont'd)

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 quantitative information of Level 3 fair value measurement are as follows:

	Fair value as at 30 June 2018	Valuation techniques	Unobservable input
Financial assets at fair value through profit or loss			
– Debt securities	243,406	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Funds and other investments	60,919,230	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial assets at fair value through other comprehensive income			
– Debt securities	–	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Other financial investments	14,645,402	Discounted cash flow	Risk-adjusted discount rate, cash flow
	Fair value as at 31 December 2017	Valuation techniques	Unobservable input
Financial assets at fair value through profit or loss			
– Debt securities	204,327	Discounted cash flow	Risk-adjusted discount rate, cash flow
Available-for-sale financial assets			
– Debt securities	50,275	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Funds and other investments	31,720,041	Discounted cash flow	Risk-adjusted discount rate, cash flow

During the six-month period ended 30 June 2018 and the year ended 31 December 2017, there were no significant changes in the valuation techniques.

As at 30 June 2018 and 31 December 2017, unobservable inputs such as estimated future cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly asset management plans and wealth management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value measurement on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis.

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(a) Financial instruments measured at fair value (cont'd)

Determination of fair value and fair value hierarchy (cont'd)

The fair value of financial instruments are, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 2 per cent of change in fair value to reasonably possible alternative assumptions.

The Group

	30 June 2018	
	Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss		
– Debt securities	4,868	(4,868)
– Funds and other investments	1,218,385	(1,218,385)
Financial assets at fair value through other comprehensive income		
– Other financial investments (reflected in other comprehensive income)	292,908	(292,908)
	31 December 2017	
	Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)
Financial assets at fair value through profit or loss		
– Debt securities	4,087	(4,087)
Available-for-sale financial assets		
– Debt securities	1,006	(1,006)
– Funds and other investments (reflected in other comprehensive income)	634,401	(634,401)

There are no transfers between Level 1 and Level 2 for financial assets measured at fair value during the six-month period ended 30 June 2018 and the year ended 31 December 2017.

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(b) Financial instruments for which fair values are disclosed

Financial assets and liabilities not presented at fair value on the statement of financial position mainly represent "Balances with central bank", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Loans and advances to customers" measured at amortised cost, and "Financial assets at amortised cost". "Due to central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Due to customers" measured at amortised cost, and "Debt securities issued".

The tables below summarise the carrying amounts and fair values of "Debt securities" classified as "Financial assets at amortised cost", and "Debt securities issued" not presented at fair value on the statement of financial position.

	Carrying value	
	30 June 2018	31 December 2017
Financial assets		
Debt securities (i)		
Financial assets at amortised cost	91,983,306	—
Receivables	—	90,919,325
Held-to-maturity investments	—	59,902,988
	91,983,306	150,822,313
Financial liabilities		
Debt securities issued (ii)	96,922,489	101,383,777

	Fair value	
	30 June 2018	31 December 2017
Financial assets		
Debt securities (i)		
Financial assets at amortised cost	89,303,593	—
Receivables	—	90,919,325
Held-to-maturity investments	—	59,339,547
	89,303,593	150,258,872
Financial liabilities		
Debt securities issued (ii)	94,633,322	101,144,718

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For the six months ended 30 June 2018
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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(b) Financial instruments for which fair values are disclosed (cont'd)

(i) Debt securities classified as "Financial assets at amortised cost"

Fair values of debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Group will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flow models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd.

(ii) Debt securities issued

The aggregate fair values are calculated based on quoted market prices. For those debt securities where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

The tables below summarise the three levels' fair values of "Debt securities" classified as "Financial assets at amortised cost", and "Debt securities issued" not presented at fair value on the statement of financial position.

30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets disclosed at fair value				
Financial assets at amortised cost	–	59,752,913	29,550,680	89,303,593
Financial liabilities disclosed at fair value				
– Debt securities issued	–	94,633,322	–	94,633,322
31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets disclosed at fair value				
Receivables	–	–	90,919,325	90,919,325
Held-to-maturity investments	–	59,339,547	–	59,339,547
	–	59,339,547	90,919,325	150,258,872
Financial liabilities disclosed at fair value				
– Debt securities issued	–	101,144,718	–	101,144,718

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43. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

(b) Financial instruments for which fair values are disclosed (cont'd)

Determination of fair value and fair value hierarchy

Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of discounted cash flows or pricing models. For debt securities, the fair values of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., and the valuation results are determined based on a valuation technique for which all significant inputs are observable market data.

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

- (i) The fair values of financial assets at amortised cost, subordinated bonds and financial bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated "the same to special purpose vehicle ("SPV") account in financial assets at amortised cost" on the basis of pricing models or discounted cash flows.

All of the above mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

The following are the financial instruments for which their carrying amounts are the reasonable approximations of their fair values. The carrying amounts are reasonable approximation because, for example, these financial instruments are short-term in nature or repriced at current market rates frequently.

Assets	Liabilities
Cash and balances with central bank	Due to central bank
Deposits with banks and other financial institutions	Due to banks and other financial institutions
Placements with banks and other financial institutions	Placements from banks and other financial institutions
Reverse repurchase agreements	Repurchase agreements
Loans and advances to customers	Due to customers
Other financial assets	Other financial liabilities

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44. EVENTS AFTER THE REPORTING PERIOD

Up to the date of this report, the Group has no significant event after the reporting period.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 24 August 2018.

DEFINITIONS

“the Company”, “the Bank”, “our Bank” or “Guangzhou Rural Commercial Bank”	Guangzhou Rural Commercial Bank Co., Ltd.
“Articles of Association” or “Articles”	the articles of association of the Bank, which was passed by the shareholders of the Bank at the extraordinary general meeting held on September 7, 2016 and was approved by the CBRC, Guangdong Bureau on December 23, 2016 to take effect after the listing (as amended, supplemented or otherwise revised from time to time)
“Sannong”	agriculture, rural areas and farmers
“county bank(s)”	bank institutions that are approved by CBRC to be incorporated in rural areas to provide services to local farmers or enterprises
“One Belt, One Road”	“Silk Road Economic Belt” and the “21st Century Maritime Silk Road”
“Reporting Period”	For the year from January 1, 2018 to June 30, 2018
“CBRC”	China Banking Regulatory Commission
“Guangdong Bureau of CBRC”	Guangdong Bureau of China Banking Regulatory Commission
“CSRC”	China Securities Regulatory Commission
“AGM”	annual general meeting of the Bank
“Board of Directors”	the board of directors of the Bank
“Board of Supervisors”	the board of supervisors of the Bank
“H Shares”	the foreign shares which are registered in Mainland China and listed in Hong Kong
“Domestic Shares”	the ordinary shares with a nominal value of RMB1.00 each issued by the Bank, which are subscribed for or credited as paid up in RMB
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“RMB”	the lawful currency of the People’s Republic of China
“USD”	the lawful currency of the United States of America
“IFRS”	International Financial Reporting Standards and International Accounting Standards (“IAS”), which include the related standards, amendments and interpretations issued by the International Accounting Standard Board (“IASB”)
“Latest Practicable Date”	August 24, 2018