



中国光大银行
CHINA EVERBRIGHT BANK

Building a Leading Wealth Management Bank

Stock Code: 6818

2019 中期報告
INTERIM REPORT



中國光大銀行股份有限公司

China Everbright Bank Company Limited

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





Contents

Important Notice and Definitions	2	Changes in Preference Share Capital and Shareholders	49
Company Profile	3	Convertible Corporate Bonds	53
Summary of Accounting Data and Financial Indicators	5	Directors, Supervisors, Senior Management, Staff and Business Outlets	55
Business Overview of the Bank	9	Corporate Governance	58
Discussion and Analysis of Operations	11	Report on Review of Interim Financial Information and Financial Statements	61
Significant Events	39		
Changes in Ordinary Share Capital and Shareholders	43		



Important Notice and Definitions

I. IMPORTANT NOTICE

- i. The Board of Directors, Board of Supervisors and Directors, Supervisors and Senior Management of the Bank hereby warrant the authenticity, accuracy and completeness of the contents of this Report and that there are no false representations, misleading statements or material omissions, and jointly and severally assume full responsibility for the information in this Report.
- ii. The 2nd Meeting of the Eighth Session of the Board of Directors of the Bank was convened by written resolutions on 28 August 2019, at which the 2019 Interim Report of the Bank was considered and approved. 12 out of 12 Directors attended and voted at the meeting in person.
- iii. The financial statements of the Bank for the first half of 2019 were prepared in accordance with the PRC Generally Accepted Accounting Principles (“PRC GAAP”) and the International Financial Reporting Standards (“IFRS”) and have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international standards on review engagements, respectively.
- iv. Mr. Li Xiaopeng, Chairman of the Board of Directors, Mr. Ge Haijiao, President, Mr. Yao Zhongyou, Vice President in charge of finance, and Mr. Sun Xinhong, General Manager of the Finance and Accounting Department, hereby warrant the authenticity, accuracy and completeness of the financial report.
- v. Unless otherwise stated, all monetary sums stated in this Report are expressed in Renminbi/RMB.
- vi. The Bank will not implement any profit distribution or capitalisation of capital reserves for the first half of 2019.
- vii. Forward-looking statements such as future plans of the Bank mentioned in this Report do not constitute actual commitments of the Bank to the investors. The investors and related parties should be fully aware of the risks, and should understand the difference between plans, predictions and commitments.
- viii. The Bank has disclosed herein the major risks involved in its operations and proposed risk management measures accordingly. Please refer to “Discussion and Analysis of Operations” for details.
- ix. In this Report, “our Company”, “the Company”, “the Bank”, “Whole Bank” and “China Everbright Bank” all refer to China Everbright Bank Company Limited, and “the Group” refers to China Everbright Bank Company Limited and its subsidiaries.

II. DEFINITIONS

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

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

Company Profile

I. NAME OF THE BANK

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

II. RELEVANT PERSONS

Legal Representative: Li Xiaopeng
 Authorised representatives: Ge Haijiao, Li Jiayan
 Secretary to the Board of Directors and Company Secretary: Li Jiayan
 Securities Affairs Representative: Li Jiayan
 Assistant to Company Secretary: Lee Mei Yi

III. CONTACTS

Contact Address: China Everbright Center, No. 25 Taipingqiao Street, Xicheng District, Beijing
 Postal code: 100033
 Tel.: 86-10-63636363
 Facsimile: 86-10-63636713
 Email: IR@cebbank.com
 Investor hotline: 86-10-63636388

IV. CORPORATE INFORMATION

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

V. PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

VI. NEWSPAPER AND WEBSITE DESIGNATED FOR INFORMATION DISCLOSURE

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

Company Profile

VII. STOCK EXCHANGE FOR LISTING OF SHARES

A Shares: Shanghai Stock Exchange (SSE)

Abbreviated name of Ordinary Shares: Everbright Bank; Code: 601818

Abbreviated name of Preference Shares: Everbright P1; Everbright P2, Everbright P3; Code: 360013, 360022, 360034 (SSE Comprehensive Business Platform)

Abbreviated name of Bond: Everbright Convertible Bonds; Code: 113011

H shares: Hong Kong Exchanges and Clearing Limited (HKEX)

Abbreviated name: CEB Bank; Code: 6818

VIII. AUDITORS DURING THE REPORTING PERIOD

Domestic Auditor: Ernst & Young Hua Ming LLP

Certified Public Accountants for Signature: Gu Jun, Leung Shing Kit

Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing

Overseas Auditor: Ernst & Young

Certified Public Accountant for Signature: Kam Cheong Geoffrey

Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

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

A Share Legal Advisor: Jun He Law Offices

H Share Legal Advisor: Clifford Chance LLP

X. SHARE DEPOSITORY

A Share Ordinary Shares, Preference Shares and Convertible Bond Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited

Office Address: 36/F, China Insurance Building, No. 166, Lujiazui East Road, Pudong New District, Shanghai

H Share Registrar: Computershare Hong Kong Investor Services Limited

Office Address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

Summary of Accounting Data and Financial Indicators

I. KEY FINANCIAL DATA AND INDICATORS

Item	January – June 2019	January – June 2018 (Restated) ¹	Change (%)	January – June 2017 (Restated) ¹
Operating performance (RMB million)				
Net interest income ¹	49,183	34,484	42.63	35,813
Net fee and commission income ¹	12,749	10,478	21.67	10,562
Operating income	66,224	52,303	26.62	46,385
Operating expenses	(18,363)	(16,075)	14.23	(14,351)
Impairment losses on assets	(23,379)	(14,568)	60.48	(10,030)
Profit before tax	24,482	21,660	13.03	22,004
Net profit	20,484	18,101	13.17	16,972
Net profit attributable to equityshareholders of the Bank	20,444	18,075	13.11	16,939
Per share (in RMB)				
Basic earnings per share ²	0.37	0.32	15.63	0.34
Diluted earnings per share ³	0.33	0.29	13.79	0.32
Item	30 June 2019	31 December 2018	Change (%)	31 December 2017
Net assets per share attributable to ordinary shareholders of the Bank ⁴ (in RMB)	5.77	5.55	3.96	5.24
Scale indicators (RMB million)				
Total assets	4,647,020	4,357,332	6.65	4,088,243
Total loans and advances to customers	2,592,970	2,421,329	7.09	2,032,056
Provision for impairment of loans ⁵	71,904	67,209	6.99	51,238
Total liabilities	4,312,935	4,034,859	6.89	3,782,807
Balance of deposits from customers	2,958,862	2,571,961	15.04	2,272,665
Total equity	334,085	322,473	3.60	305,436
Total equity attributable to equity shareholders of the Bank	333,061	321,488	3.60	304,760
Share capital	52,489	52,489	–	52,489
Item	January – June 2019	January – June 2018 (Restated) ¹	Change	January – June 2017 (Restated) ¹
Profitability indicators (%)				
Return on average total assets	0.91	0.87	+0.04 percentage point	0.84
Return on weighted average net assets ⁶	12.90	12.36	+0.54 percentage point	13.76
Net interest spread ¹	2.15	1.76	+0.39 percentage point	1.60
Net interest margin ¹	2.28	1.80	+0.48 percentage point	1.79
Proportion of fee and commission income in operating income ¹	19.25	20.03	-0.78 percentage point	22.77
Cost-to-income ratio	26.68	29.66	-2.98 percentage points	29.77
Item	30 June 2019	31 December 2018	Change	31 December 2017
Asset quality indicators (%)				
Non-operating loan ratio	1.57	1.59	-0.02 percentage point	1.59
Provision coverage ratio ⁷	178.04	176.16	+1.88 percentage points	158.18
Provision-to-loan ratio ⁸	2.80	2.80	–	2.52

Summary of Accounting Data and Financial Indicators

Notes:

1. The Bank restated the data for the same period of 2018 according to the *Format of Financial Statements of Financial Enterprises for 2018* issued by MOF. Meanwhile, the Bank reclassified the installment income of credit cards from fee and commission income to interest income and restated the data for 2018 and 2017.
2. Basic earnings per share = net profit attributable to ordinary shareholders of the Bank/weighted average number of ordinary shares outstanding; net profit attributable to ordinary shareholders of the Bank = net profit attributable to shareholders of the Bank – dividends of the preference shares distributed during the period.
3. Diluted earnings per share = (net profit attributable to ordinary shareholders of the Bank + effect of dilutive potential ordinary shares on net profit attributable to ordinary shareholders of the Bank)/(weighted average number of ordinary shares outstanding + weighted average number of dilutive potential ordinary shares converted into ordinary shares).
4. Net assets per share attributable to ordinary shareholders of the Bank = (net assets attributable to equity shareholders of the Bank – preference shares of other equity instruments)/total number of ordinary shares at the end of the period.
5. It only includes provision for impairment of loans and advances to customers measured at amortised cost.
6. Return on weighted average net assets = net profit attributable to ordinary shareholders of the Bank/weighted average net assets attributable to ordinary shareholders of the Bank. The data is annualised.
7. Provision coverage ratio = (provision for impairment of loans and advances to customers measured at amortised cost + provision for impairment of loans at fair value through other comprehensive income)/balance of non-performing loans (NPLs).
8. Provision-to-loan ratio = (provision for impairment of loans measured at amortised cost + provision for impairment of loans and advances to customers at fair value through other comprehensive income)/total loans and advances to customers.

The above figures with notes 2, 3, 4 and 6 were calculated according to the *Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No.9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share* (2010 Revision) issued by CSRC.

The Bank distributed dividends of RMB1,060 million (before tax) on preference shares (Everbright P1) on 25 June 2019.

II. SUPPLEMENTARY FINANCIAL INDICATORS

			Unit: %		
Item		Standard value	30 June 2019	31 December 2018	31 December 2017
Liquidity ratio	RMB	≥25	64.41	64.26	59.93
	Foreign currency	≥25	86.44	62.15	62.45
Loan exposure to largest single customer ratio		≤10	2.69	2.12	1.29
Loan exposure to top ten customers ratio		≤50	12.50	11.88	10.00

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

III. CAPITAL COMPOSITION AND CHANGES

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

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Consolidated ¹	Non-consolidated	Consolidated ¹	Non-consolidated
1. Net capital base ²	410,921	398,553	412,012	400,663
1.1 Common equity tier-1 capital	303,779	299,922	292,093	288,903
1.2 Common equity tier-1 capital deductions	(2,461)	(9,833)	(2,455)	(9,827)
1.3 Net common equity tier-1 capital ²	301,318	290,089	289,638	279,076
1.4 Additional tier-1 capital	30,036	29,947	30,021	29,947
1.5 Additional tier-1 capital deductions	–	–	–	–
1.6 Net tier-1 capital ²	331,354	320,036	319,659	309,023
1.7 Tier-2 capital	79,567	78,517	92,353	91,640
1.8 Tier-2 capital deductions	–	–	–	–
2. Credit risk-weighted assets	3,118,772	3,030,101	2,936,448	2,864,946
3. Market risk-weighted assets	39,348	37,775	44,913	44,358
4. Operational risk-weighted assets	185,307	182,654	185,307	182,654
5. Total risk-weighted assets	3,343,427	3,250,530	3,166,668	3,091,958
6. Common equity tier-1 CAR	9.01	8.92	9.15	9.03
7. Tier-1 CAR	9.91	9.85	10.09	9.99
8. CAR	12.29	12.26	13.01	12.96

Notes:

- All domestic and overseas branches, as well as invested financial institutions within the scope of consolidated management in accordance with the Capital Rules for Commercial Banks (Provisional), shall be included in the calculation of the consolidated CARs. Among these, the invested financial institutions within the scope of consolidated management include Everbright Financial Leasing Co., Ltd., Shaoshan Everbright Village Bank Co., Ltd., Jianguo Huai'an Everbright Village Bank Co., Ltd., CEB International Investment Corporation Limited, China Everbright Bank (Europe) S.A. and Jiangxi Ruijin Everbright Village Bank Co., Ltd.
- Net common equity tier-1 capital = common equity tier-1 capital – common equity tier-1 capital deductions; net tier-1 capital = net common equity tier-1 capital + additional tier-1 capital – additional tier-1 capital deductions; net capital base = net tier-1 capital + tier-2 capital – tier-2 capital deductions.

Summary of Accounting Data and Financial Indicators

IV. LEVERAGE RATIO

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

Unit: RMB million, %

Item	30 June 2019	31 March 2019	31 December 2018	30 September 2018
Leverage ratio	6.01	6.13	6.29	6.25
Net tier-1 capital	331,354	330,189	319,659	312,578
Adjusted balance of on-and-off-balance sheet assets	5,516,302	5,385,120	5,079,718	5,000,632

Please refer to “Notes to the Financial Statements” for details about liquidity ratio.

V. LIQUIDITY COVERAGE RATIO

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

Unit: RMB million, %

Item	30 June 2019	31 March 2019	31 December 2018	30 September 2018
Liquidity coverage ratio	123.26	120.74	118.15	97.84
Eligible high quality liquid assets	527,549	479,683	407,191	338,731
Net cash outflow in the next 30 days	427,994	397,301	344,642	346,214

VI. NET STABLE FUNDING RATIO

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

Unit: RMB million, %

Item	30 June 2019	31 March 2019	31 December 2018
Available stable funding	2,594,154	2,512,740	2,446,254
Required stable funding	2,502,665	2,448,884	2,313,169
Net stable funding ratio	103.66	102.61	105.75

Please refer to “Notes to the Financial Statements” for details about net stable funding ratio.

Business Overview of the Bank

I. REVIEW OF MAIN WORK OF THE BANK DURING THE REPORTING PERIOD

Centering on the “Year of Value Creation”, the Bank maintained strategic focus, sought progress amid stability, and opportunities among changes. Focusing on key businesses, it accelerated the transformation towards “agility, technology, ecology” operations and vigorously built the Everbright wealth ecosystem (Wealth E-SBU). Through these efforts, the Bank continued to improve its comprehensive competitiveness and achieved new results in building a first-class wealth management bank.

i. Steadily improve operating results

All budgets were well executed, operating benefits were improved across the board, and market competitiveness was constantly sharpened. Deposits grew rapidly, asset-liability structure was continuously improved and loan-to-deposit ratio significantly increased. The Bank’s rankings in the lists of *The Banker* in the UK and *Fortune* in the US continued to rise.

ii. Actively implement national policies

The Bank actively served major national strategies, fully supported the coordinated development of the Beijing-Tianjin-Hebei region, Guangdong-Hong Kong-Macao Greater Bay Area and the Yangtze Economic Belt, and formally launched Xiongan Branch. Its inclusive finance services achieved the goal of “two increases and two controls”, and loans to private enterprises continued to grow. The Bank implemented the market-oriented debt-for-equity swap projects in an orderly manner, and actively helped enterprises to deleverage. It also stepped up targeted poverty alleviation efforts and continued to carry out relevant activities.

iii. Vigorously promote the building-up of famous brands

The Bank secured successive victories by winning the bids for occupational annuity custodian in several provinces and autonomous regions. The transformation and upgrading of digital banking achieved remarkable results, and the income from online products increased significantly. The cloud fee payment business developed rapidly, making the Bank maintain a leading edge among peers. What’s more, the competitiveness of the Bank’s famous brands such as automobile “Full Link” and “Colorful Sunshine” series net-worth wealth management products, “Sunshine e Grain Loan” kept improving.

iv. Continuously tamping the risk control foundation

The Bank actively pushed forward the reform of its risk management system and accelerated the development of its intelligent risk control system. It strengthened asset and liability management, and kept meeting the requirements for liquidity risk control. The Bank recovered and disposed of non-performing assets in an orderly manner, and resolutely safeguarded its legitimate rights and interests. It improved the authorisation of operation and management, and strengthened the internal control system building. It also carried out inspections in depth, and stuck to the bottom line of compliant operation.

Business Overview of the Bank

II. ANALYSIS ON CORE COMPETITIVENESS OF THE BANK

- i. Distinguished background of shareholders engaged in diversified operation and coordinated development of finance and other industries with a full range of financial licenses: China Everbright Group is a large financial holding group directly under the administration of the central government, and also one of the Fortune 500 companies across the world. It runs financial business in a diversity of forms, and possesses a full range of financial licenses. Besides, setting foot in industrial sectors, the Group offers the Bank a platform to provide a full package of financial services and promote the coordinated development of finance and other industries.
- ii. Unified Sunshine brand: Upholding the business philosophy of “Sharing Sunshine Innovating Life” for many years, the Bank has stepped up its brand building efforts to create the “Sunshine” brand series. It has developed a favourable image in the market, gained great reputation, and demonstrated considerable brand competitiveness.
- iii. Outstanding innovative DNA: The Bank was established against the background of a competitive financial market just emerged in China, and it grew stronger in the pursuit of exploration and innovation. Inspired by innovation awareness, it secured impressively innovative achievements. With its innovative efforts, it became the first bank that launched the RMB wealth management product, the first one to be fully-licensed for running the national treasury business on an agency basis, and one of the first banks owning the dual qualifications for enterprise annuity custodian and account manager across the country. Besides, it forged China’s largest open-ended payment platform named “Cloud Fee Payment”, and endeavored to build a strategic and coordinated ecosystem for wealth management.
- iv. Leading roles in some businesses: The Bank has obtained comparative advantages in wealth management business, and is devoted to building a “leading wealth management bank”. Its investment banking business segment as the first mover in the industry is able to provide corporate customers with comprehensive investment banking services. Its digital banking business has focused on building an open service system based on an open-ended platform, which has developed into an industry leading business model. Centering on customer service, the credit card business of the Bank has gained a superior position among its peers with rapid growth generated by means of technology-driven innovation and service-based image building.
- v. Prudent and efficient system for comprehensive risk management: Sticking to the principle of “all-round, whole-process, all staff participation”, the Bank keeps improving its risk management system and mechanism, proactively pushes forward the implementation of the New Basel Accord, and has established a sound and comprehensive risk management system and features a prudent and highly efficient risk management mechanism.
- vi. Advanced IT management and independent R&D capabilities: As the first Chinese commercial bank to realize “data centralization”, the Bank has led the industry in terms of safe operation and maintenance as well as technological support capabilities. In recent years, it has also enhanced its independent R&D capability by setting up multiple platforms.

Discussion and Analysis of Operations

I. OVERALL OPERATIONS OF THE BANK

i. Assets and liabilities realized steady growth, and structural adjustments improved continuously

As at the end of the reporting period, total assets of the Group posted RMB4,647,020 million, representing an increase of 6.65% as compared with the end of the previous year. Total loans and advances to customers stood at RMB2,592,970 million, representing an increase of 7.09% as compared with the end of the previous year, accounting for 55.80% of the total assets, up by 0.23 percentage point over the end of the previous year. The balance of deposits reached RMB2,958,862 million, representing an increase of 15.04% as compared with the end of the previous year, accounting for 68.60% of the total liabilities, up by 4.86 percentage points as compared with the end of the previous year.

ii. Income recorded fast growth, and profitability improved remarkably

During the reporting period, operating income of the Group registered RMB66,224 million, a year-on-year increase of 26.62%. Specifically, net interest income posted RMB49,183 million, up by 42.63% year on year; net interest margin was 2.28%, up by 48 BPs year on year; net fee and commission income posted RMB12,749 million, an increase of 21.67% year on year. Net profit of the Group reached RMB20,484 million, up by 13.17% year on year. Return on weighted average net assets stood at 12.90%, a year-on-year increase of 0.54 percentage point.

iii. Asset quality kept improving, and risk resistance got intensified

As at the end of the reporting period, the Group's non-performing loans (NPLs) amounted to RMB40,718 million, an increase of RMB2,297 million as compared with the end of the previous year. NPL ratio reported 1.57%, down by 0.02 percentage point as compared with the end of the previous year. Provision coverage ratio reached 178.04%, up by 1.88 percentage points over the end of the previous year. Risk indicators remained stable while making progress.

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

As at the end of the reporting period, the Group's CAR, tier-1 CAR and common equity tier-1 CAR was 12.29%, 9.91% and 9.01% respectively, all of which met the regulatory requirements.

Discussion and Analysis of Operations

II. INCOME STATEMENT ANALYSIS

i. Changes in items of income statement

Unit: RMB million

Item	January – June 2019	January – June 2018 (Restated) ¹	Change
Net interest income ¹	49,183	34,484	14,699
Net fee and commission income ¹	12,749	10,478	2,271
Net trading gains/(losses) ¹	69	685	(616)
Dividend income	11	8	3
Net gains/(losses) arising from investment securities ¹	2,974	6,277	(3,303)
Net foreign exchange gains or losses ¹	778	90	688
Other operating gains or losses	460	281	179
Operating expenses	18,363	16,075	2,288
Impairment losses on assets	23,379	14,568	8,811
Profit before tax	24,482	21,660	2,822
Income tax	3,998	3,559	439
Net profit	20,484	18,101	2,383
Net profit attributable to shareholders of the Bank	20,444	18,075	2,369

Note: As of 1 January 2019, the Group reclassified the installment income of credit cards from fee and commission income to interest income. The above data for the same period have been restated. Meanwhile, the data for the same period of 2018 were restated according to the *Format of Financial Statements of Financial Enterprises for 2018* issued by MOF. Specifically, interest income on bonds measured at fair value through profit or loss is reclassified to net trading gains/(losses) and net gains/(losses) arising from investment securities, and gains/(losses) on foreign exchange derivative financial instruments from net trading gains/(losses) to net foreign exchange gains.

ii. Operating income

During the reporting period, the Group incurred an operating income of RMB66,224 million, a year-on-year increase of RMB13,921 million or 26.62%. Net interest income accounted for 74.27%, up by 8.34 percentage points year on year. Net fee and commission income accounted for 19.25%, down by 0.78 percentage point year on year.

Unit: %

Item	January – June 2019	January – June 2018 (Restated)
Net interest income	74.27	65.93
Net fee and commission income	19.25	20.03
Other income	6.48	14.04
Total operating income	100.00	100.00

iii. Net interest income

During the reporting period, the Group realised net interest income of RMB49,183 million, a year-on-year increase of RMB14,699 million or 42.63%, which is mainly attributable to the increase in loans and advances to customers.

The Group's net interest spread reported 2.15%, a year-on-year increase of 39 BPs. Its net interest margin was 2.28%, up by 48 BPs year on year, mainly due to the improved asset and liability structure and the decline in debt-to-cost ratio.

Unit: RMB million, %

Item	January – June 2019			January – June 2018 (Restated)		
	Average balance	Interest income/expenses	Average yield/cost	Average balance	Interest income/expenses	Average yield/cost
Interest-earning assets						
Loans and advances to customers	2,505,949	70,561	5.68	2,132,556	56,504	5.34
Finance lease receivables	77,403	2,073	5.40	59,454	1,530	5.19
Investments	1,104,495	23,895	4.36	1,024,787	22,209	4.37
Deposits with the central bank	346,736	2,493	1.45	350,668	2,589	1.49
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	319,492	4,028	2.54	302,336	5,407	3.61
Total interest-earning assets	4,354,075	103,050	4.77	3,869,801	88,239	4.60
Interest income		103,050			88,239	
Interest-bearing liabilities						
Deposits from customers	2,734,101	30,763	2.27	2,321,485	24,227	2.10
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	977,406	14,861	3.07	1,060,452	19,820	3.77
Debt securities issued	435,522	8,243	3.82	431,826	9,708	4.53
Total interest-bearing liabilities	4,147,029	53,867	2.62	3,813,763	53,755	2.84
Interest expenses		53,867			53,755	
Net interest income		49,183			34,484	
Net interest spread¹			2.15			1.76
Net interest margin²			2.28			1.80

Notes:

1. Net interest spread is the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities;
2. Net interest margin is the net interest income divided by the average balance of total interest-earning assets.

Discussion and Analysis of Operations

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

Unit: RMB million

Item	Scale factor	Interest rate factor	Change in interest
Loans and advances to customers	10,514	3,543	14,057
Finance lease receivables	481	62	543
Investments	1,724	(38)	1,686
Deposits with the central bank	(28)	(68)	(96)
Placements and deposits with banks and other financial institutions, and financial assets held under resale agreements	216	(1,595)	(1,379)
Interest-earning assets	11,462	3,349	14,811
Changes in interest income			14,811
Deposits from customers	4,643	1,893	6,536
Placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements	(1,263)	(3,696)	(4,959)
Debt securities issued	70	(1,535)	(1,465)
Interest-bearing liabilities	4,329	(4,217)	112
Changes in interest expenses			112
Net interest income			14,699

iv. Interest income

During the reporting period, the Group yielded an interest income of RMB103,050 million, a year-on-year increase of RMB14,811 million or 16.79%. Such increase was mainly attributed to the growing interest income from loans and advances to customers.

1. Interest income from loans and advances to customers

During the reporting period, the Group's interest income from loans and advances to customers amounted to RMB70,561 million, a year-on-year increase of RMB14,057 million or 24.88%. Such increase was mainly due to the expanding loan scale and the increasing loan yield.

Unit: RMB million, %

Item	January – June 2019			January – June 2018 (Restated)		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,390,787	34,631	5.02	1,234,066	28,915	4.72
Personal loans	1,064,709	34,977	6.62	874,122	26,986	6.23
Discounted bills	50,453	953	3.81	24,368	603	4.99
Loans and advances to customers	2,505,949	70,561	5.68	2,132,556	56,504	5.34

2. Interest income from investments

During the reporting period, the Group's interest income from investments amounted to RMB23,895 million, a year-on-year increase of RMB1,686 million or 7.59%. Such increase was mainly due to the expanding investment scale.

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

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions and financial assets held under resale agreements was RMB4,028 million, a year-on-year decrease of RMB1,379 million or 25.50%. The drop was mainly attributed to the decrease of yield of such assets.

v. Interest expenses

During the reporting period, the Group's interest expenses amounted to RMB53,867 million, representing a year-on-year increase of RMB112 million or 0.21%.

1. Interest expenses on deposits from customers

During the reporting period, the Group's interest expenses on deposits from customers amounted to RMB30,763 million, a year-on-year increase of RMB6,536 million or 26.98%. Such increase was mainly due to the expanding scale of deposits from customers and rising interest rates.

Unit: RMB million, %

Item	January – June 2019			January – June 2018		
	Average balance	Interest expenses	Average cost ratio	Average balance	Interest expenses	Average cost ratio
Corporate deposits	2,089,111	22,528	2.17	1,828,682	18,855	2.08
Including: Demand deposits	720,617	2,721	0.76	702,786	2,576	0.74
Time deposits	1,368,494	19,807	2.92	1,125,896	16,279	2.92
Personal deposits	644,990	8,235	2.57	492,803	5,372	2.20
Including: Demand deposits	182,358	388	0.43	173,034	345	0.40
Time deposits	462,632	7,847	3.42	319,769	5,027	3.17
Total deposits from customers	2,734,101	30,763	2.27	2,321,485	24,227	2.10

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

During the reporting period, the Group's interest expenses on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements registered RMB14,861 million, representing a decrease of RMB4,959 million or 25.02% year on year. The decrease was mainly due to the improving liability structure and the declining inter-bank interest rates.

3. Interest expenses on debt securities issued

During the reporting period, the Group's interest expenses on debt securities issued totaled RMB8,243 million, a year-on-year decrease of RMB1,465 million or 15.09%. Such decrease was mainly due to the decrease in interest rate of inter-bank certificates of deposits.

Discussion and Analysis of Operations

vi. Net fee and commission income

During the reporting period, net fee and commission income of the Group was RMB12,749 million, a year-on-year increase of RMB2,271 million or 21.67%. Such rise was mainly due to the increase in bank card service fees, which grew by RMB1,536 million or 28.33% year on year.

Item	Unit: RMB million	
	January – June 2019	January – June 2018 (Restated)
Fee and commission income	14,097	11,782
Underwriting and advisory fees	1,096	861
Bank card service fees	6,957	5,421
Settlement and clearing fees	1,067	815
Wealth management service fees	266	502
Acceptance and guarantee fees	824	633
Agency services fees	1,919	1,706
Custody and other fiduciary business fees	855	771
Others	1,113	1,073
Fee and commission expenses	(1,348)	(1,304)
Net fee and commission income	12,749	10,478

vii. Other income

During the reporting period, the Group's other income stood at RMB4,292 million, representing a year-on-year decrease of RMB3,049 million. The decrease was mainly due to the declining scale of investment securities.

Item	Unit: RMB million	
	January – June 2019	January – June 2018 (Restated)
Net trading gains or losses	69	685
Dividend income	11	8
Net gains or losses arising from investment securities	2,974	6,277
Net foreign exchange gains or losses	778	90
Other operating income or losses	460	281
Total	4,292	7,341

viii. Operating expenses

During the reporting period, the Group incurred operating expenses of RMB18,363 million, an increase of RMB2,288 million or 14.23% year on year. Cost-to-income ratio stood at 26.68%, down by 2.98 percentage points year on year.

Item	Unit: RMB million	
	January – June 2019	January – June 2018
Staff costs	10,644	9,445
Premises and equipment expenses	2,762	2,418
Tax and surcharges	695	561
Others	4,262	3,651
Total operating expenses	18,363	16,075

ix. Impairment losses on assets

The Group pursued the objective and prudent provisioning policy, continued to consolidate the provision foundation and increased risk resistance. During the reporting period, the Bank sustained the impairment losses on assets of RMB23,379 million, representing a year-on-year increase of RMB8,811 million or 60.48%.

Item	Unit: RMB million	
	January – June 2019	January – June 2018
Impairment losses on loans and advances to customers	22,896	14,351
Loans and advances to customers measured at amortised cost	22,780	14,759
Loans and advances to customers at fair value through other comprehensive income	116	(408)
Impairment losses on finance lease receivables	344	(2)
Impairment losses on debt instruments at fair value through other comprehensive income	133	58
Impairment losses on financial investments measured at amortised cost	(46)	(106)
Others	52	267
Total impairment losses on assets	23,379	14,568

x. Income tax

During the reporting period, the Group incurred an income tax of RMB3,998 million, an increase of RMB439 million or 12.33% year on year, which is mainly due to the increase in operating profit.

Discussion and Analysis of Operations

III. BALANCE SHEET ANALYSIS

i. Assets

As at the end of the reporting period, the Group's total assets reached RMB4,647,020 million, an increase of RMB289,688 million or 6.65% as compared with the end of the previous year, mainly due to the increase in loans and advances to customers.

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Total loans and advances to customers	2,592,970		2,421,329	
Loan accrued interest	9,511		7,158	
Provision for impairment of loans ¹	(71,904)		(67,209)	
Net loans and advances to customers	2,530,577	54.46	2,361,278	54.19
Finance lease receivables	77,403	1.67	63,333	1.45
Deposits with banks and other financial institutions	63,904	1.38	41,005	0.94
Cash and deposits with the central bank	378,356	8.14	366,575	8.41
Precious metals	23,184	0.50	23,628	0.54
Investments in securities and other financial assets	1,336,444	28.76	1,316,292	30.21
Placements with banks and other financial institutions, and financial assets held under resale agreements	134,346	2.89	134,458	3.09
Fixed assets	18,332	0.39	18,241	0.42
Right-of-use assets	11,203	0.24	N/A	N/A
Goodwill	1,281	0.03	1,281	0.03
Deferred tax assets	15,515	0.33	10,794	0.25
Other assets	56,475	1.21	20,447	0.47
Total assets	4,647,020	100.00	4,357,332	100.00

Note: ¹ It only includes provision for impairment of loans measured at amortised cost.

1. Loans and advances to customers

As at the end of the reporting period, the Group's total loans and advances to customers were RMB2,592,970 million, an increase of RMB171,641 million or 7.09% as compared with the end of the previous year. The proportion of net loans and advances to customers in total assets was 54.46%, an increase of 0.27 percentage point as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Corporate loans	1,424,627	54.94	1,332,629	55.04
Personal loans	1,105,377	42.63	1,053,203	43.50
Discounted bills	62,966	2.43	35,497	1.46
Total loans and advances to customers	2,592,970	100.00	2,421,329	100.00

2. Investment in securities and other financial assets

As at the end of the reporting period, the Group's investment in securities and other financial assets totaled RMB1,336,444 million, an increase of RMB20,152 million as compared with the end of the previous year, accounting for 28.76% of total assets, down by 1.45 percentage points as compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	169,571	12.69	222,737	16.92
Debt instruments at fair value through other comprehensive income	202,347	15.14	153,987	11.70
Equity instruments at fair value through other comprehensive income	373	0.03	367	0.03
Financial investments measured at amortised cost	953,294	71.33	923,989	70.19
Derivative financial assets	10,859	0.81	15,212	1.16
Total investment in securities and other financial assets	1,336,444	100.00	1,316,292	100.00

3. Types and amounts of financial bonds held

As at the end of the reporting period, the financial bonds held by the Group amounted to RMB200,220 million, down by RMB31,219 million over the end of the previous year. Of these, the financial bonds measured at amortised cost occupied a proportion of 70.84% in the total.

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	6,116	3.05	4,442	1.92
Debt instruments at fair value through other comprehensive income	52,282	26.11	48,278	20.86
Financial investments measured at amortised cost	141,822	70.84	178,719	77.22
Total financial bonds held	200,220	100.00	231,439	100.00

4. Top 10 financial bonds held in scale

Unit: RMB million, %

Name of bond	Nominal value	Annual interest rate	Maturity date	Allowance for impairment losses
Bond 1	15,820	4.98	12 January 2025	–
Bond 2	11,310	4.04	10 April 2027	–
Bond 3	10,720	4.73	2 April 2025	–
Bond 4	9,460	4.39	8 September 2027	–
Bond 5	6,480	4.24	24 August 2027	–
Bond 6	5,140	3.80	25 January 2036	–
Bond 7	5,040	3.74	10 September 2025	–
Bond 8	4,500	4.01	9 January 2037	–
Bond 9	4,430	3.83	6 January 2024	–
Bond 10	3,070	3.05	25 August 2026	–

Discussion and Analysis of Operations

5. Goodwill

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

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

ii. Liabilities

As at the end of the reporting period, the Group's total liabilities reached RMB4,312,935 million, an increase of RMB278,076 million or 6.89% as compared with the end of the previous year, mainly due to the increase in deposits from customers.

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Due to the central bank	242,156	5.61	267,193	6.62
Deposits from customers	2,958,862	68.60	2,571,961	63.74
Deposits from banks and other financial institutions	391,123	9.07	490,091	12.15
Placements from banks and other financial institutions, and financial assets sold under repurchase agreements	182,932	4.24	192,448	4.77
Financial liabilities at fair value through profit or loss	7	0.01	354	0.01
Derivative financial liabilities	10,575	0.25	14,349	0.36
Accrued staff costs	8,257	0.19	8,028	0.20
Taxes payable	8,505	0.20	5,666	0.14
Lease liabilities	10,469	0.24	N/A	N/A
Debt securities issued	441,135	10.23	440,449	10.92
Other liabilities	58,914	1.36	44,320	1.09
Total liabilities	4,312,935	100.00	4,034,859	100.00

As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB2,958,862 million, representing an increase of RMB386,901 million or 15.04%, as compared with the end of the previous year.

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Corporate deposits	2,224,444	75.18	1,940,108	75.44
Including: Demand deposits	817,917	27.64	732,628	28.49
Time deposits	1,406,527	47.54	1,207,480	46.95
Personal deposits	616,218	20.83	514,746	20.01
Including: Demand deposits	221,923	7.50	194,434	7.56
Time deposits	394,295	13.33	320,312	12.45
Other deposits	81,937	2.76	83,854	3.26
Accrued interests	36,263	1.23	33,253	1.29
Total deposits from customers	2,958,862	100.00	2,571,961	100.00

iii. Equity of shareholders

As at the end of the reporting period, the Group's equity attributable to shareholders of the Bank amounted to RMB333,061 million, representing a net increase of RMB11,573 million as compared with the end of the previous year. The increase was mainly due to profit realised in the current period and dividend distribution.

Item	Unit: RMB million	
	30 June 2019	31 December 2018
Share capital	52,489	52,489
Other equity instruments	35,108	35,108
Capital reserve	53,533	53,533
Other comprehensive income	2,295	1,655
Surplus reserve	24,371	24,371
General reserve	54,037	54,036
Retained earnings	111,228	100,296
Total equity attributable to equity shareholders of the Bank	333,061	321,488
Non-controlling interests	1,024	985
Total equity	334,085	322,473

iv. Off-balance sheet items

The Group's off-balance sheet items are mainly credit commitments, including loan and credit card commitments, acceptance bills, letters of guarantee, letters of credit and guarantees. As at the end of the reporting period, the total amount of credit commitments was RMB1,208,541 million, an increase of RMB196,950 million as compared with that as at the end of the previous year.

Item	Unit: RMB million	
	30 June 2019	31 December 2018
Loan and credit card commitments	308,144	279,184
Bank's acceptance bills	590,320	477,110
Letters of guarantee	129,056	123,416
Letters of credit	180,836	131,696
Guarantees	185	185
Total credit commitments	1,208,541	1,011,591

IV. CASH FLOW ANALYSIS

The Group's net cash inflows from operating activities amounted to RMB15,169 million. Specifically, cash inflows generated from operating activities reported RMB32,241 million, cash outflows arising from changes in operating assets stood at RMB276,776 million, and cash inflows arising from changes in operating liabilities totaled RMB259,704 million.

The Group's net cash inflows from investment activities amounted to RMB21,346 million, of which cash inflows generated from disposal and redemption of investments reported RMB242,850 million and cash outflows arising from acquisition of investments amounted to RMB248,317 million.

The Group's net cash outflows from financing activities were RMB18,405 million, of which cash outflows generated from payment of debt securities interests registered RMB9,379 million.

Discussion and Analysis of Operations

V. ANALYSIS OF LOAN QUALITY

i. Distribution of loans by industry

During the reporting period, by focusing on the target of economic restructuring, transformation and upgrading, the Group continuously optimized its credit portfolio by industry.

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Manufacturing	255,337	17.92	248,914	18.68
Water, environment and public utility management	241,748	16.97	222,568	16.70
Real estate	210,740	14.79	192,075	14.41
Leasing and commercial services	163,071	11.45	150,159	11.27
Wholesale and retail trade	113,468	7.96	111,021	8.33
Transportation, storage and postal service	91,321	6.41	94,783	7.11
Construction	86,011	6.04	71,435	5.36
Finance	74,613	5.24	74,177	5.57
Production and supply of power, gas and water	44,276	3.11	43,638	3.27
Agriculture, forestry, animal husbandry and fishery	39,095	2.74	32,356	2.43
Others ¹	104,947	7.37	91,503	6.87
Subtotal of corporate loans	1,424,627	100.00	1,332,629	100.00
Personal loans	1,105,377	–	1,053,203	–
Discounted bills	62,966	–	35,497	–
Total loans and advances to customers	2,592,970	–	2,421,329	–

Note:

1. Consist of mining; accommodation and catering; public administration and social organisations; information transmission, computer services and software; health, social security and social welfare; resident services and other services; scientific research, technical services and geological prospecting; culture, sports and recreation; education; etc.

ii. Distribution of loans by region

The distribution of the Group's loans by region remained relatively stable and geographic layout is balanced.

Unit: RMB million, %

Region	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	505,668	19.50	478,383	19.76
Central	414,059	15.97	382,965	15.82
Bohai Rim	353,383	13.63	341,728	14.11
Western	345,502	13.32	325,532	13.44
Pearl River Delta	321,852	12.41	291,896	12.06
Northeastern	123,887	4.78	119,667	4.94
Head Office	433,965	16.74	403,118	16.65
Overseas	94,654	3.65	78,040	3.22
Total loans and advances to customers	2,592,970	100.00	2,421,329	100.00

iii. Types of loan collateral and their proportions

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

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Unsecured loans	804,621	31.03	778,691	32.16
Guaranteed loans	614,596	23.70	563,293	23.26
Mortgage loans	858,790	33.12	814,026	33.62
Pledged loans	314,963	12.15	265,319	10.96
Total loans and advances to customers	2,592,970	100.00	2,421,329	100.00

iv. Top ten loan customers

Unit: RMB million, %

Name	Industry	Balance of loans as of 30 June 2019	Proportion in total loans	Proportion in net capital ¹
Borrower 1	Manufacturing	11,036	0.43	2.69
Borrower 2 ²	Leasing and commercial services	6,900	0.27	1.68
Borrower 3	Real estate	6,342	0.24	1.54
Borrower 4	Water, environment and public utility management	4,570	0.18	1.11
Borrower 5	Wholesale and retail trade	4,195	0.16	1.02
Borrower 6	Finance services	4,010	0.15	0.98
Borrower 7	Manufacturing	3,626	0.14	0.88
Borrower 8	Water, environment and public utility management	3,620	0.14	0.88
Borrower 9	Real estate	3,574	0.14	0.87
Borrower 10	Manufacturing	3,490	0.13	0.85
Total		51,363	1.98	12.50

Notes:

1. The proportion of the balance of loans in net capital is calculated according to the requirements of CBIRC.
2. Borrower 2 is a related party of the Bank and has conducted a related party transaction with the Bank.

Discussion and Analysis of Operations

v. Five-category loan classification

Due to some internal and external factors such as macro economy slowdown and structural adjustment, the Group's NPL balance increased moderately. As at the end of the reporting period, the balance of NPLs reported RMB40,718 million, an increase of RMB2,297 million over the end of the previous year. NPL ratio was 1.57%, down by 0.02 percentage point compared with the end of the previous year.

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Normal	2,492,623	96.13	2,324,565	96.00
Special mention	59,629	2.30	58,343	2.41
Substandard	17,610	0.68	17,392	0.72
Doubtful	16,262	0.63	14,437	0.60
Loss	6,846	0.26	6,592	0.27
Total loans and advances to customers	2,592,970	100.00	2,421,329	100.00
Performing loans	2,552,252	98.43	2,382,908	98.41
Non-performing loans	40,718	1.57	38,421	1.59

vi. Loan migration ratio

Unit: %

Item	30 June 2019	2018	Change	2017
Migration ratio of normal loans	1.27	1.94	-0.67 percentage point	1.68
Migration ratio of special mention loans	25.06	38.48	-13.42 percentage points	22.49
Migration ratio of substandard loans	52.84	68.71	-15.87 percentage points	57.69
Migration ratio of doubtful loans	31.84	32.80	-0.96 percentage point	36.18

vii. Restructured loans and overdue loans

1. Restructured loans

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Proportion to total loans	Balance	Proportion to total loans
Restructured loans and advances to customers	14,424	0.56	15,788	0.65
Of which: Restructured loans and advances to customers overdue more than 90 days	786	0.03	801	0.03

2. Please refer to “Notes to the Consolidated Financial Statements” for details of overdue loans.

viii. NPLs by business type

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Corporate loans	27,477	67.48	26,071	67.86
Personal loans	13,241	32.52	12,350	32.14
Discounted bills	—	—	—	—
Total NPLs	40,718	100.00	38,421	100.00

ix. Distribution of NPLs by region

During the reporting period, the Group's NPLs in Bohai Rim, Western, Central and Northeastern decreased slightly, whereas those in Yangtze River Delta and other areas increased.

Unit: RMB million, %

Region	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Bohai Rim	9,063	22.26	9,196	23.94
Yangtze River Delta	8,608	21.14	5,599	14.57
Pearl River Delta	4,515	11.09	4,516	11.75
Western	4,172	10.25	4,398	11.45
Central	3,977	9.77	4,477	11.65
Northeastern	2,017	4.95	2,419	6.30
Head Office	8,222	20.19	7,808	20.32
Overseas	144	0.35	8	0.02
Total NPLs	40,718	100.00	38,421	100.00

x. Distribution of NPLs by industry

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

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Manufacturing	14,393	35.35	15,086	39.27
Wholesale and retail trade	6,541	16.06	6,862	17.86
Accommodation and catering	2,270	5.57	1,252	3.26
Production and supply of power, gas and water	793	1.95	278	0.72
Mining	642	1.58	574	1.49
Construction	640	1.57	693	1.80
Information transmission, computer services and software	610	1.50	336	0.88
Real estate	594	1.46	576	1.50
Transportation, storage and postal service	136	0.33	146	0.38
Agriculture, forestry, animal husbandry and fishery	112	0.28	133	0.35
Others ¹	746	1.83	135	0.35
Subtotal of corporate loans	27,477	67.48	26,071	67.86
Personal loans	13,241	32.52	12,350	32.14
Discounted bills	—	—	—	—
Total NPLs	40,718	100.00	38,421	100.00

Note:

1. Consist of health, social security and social welfare; scientific research, technical services and geological prospecting; finance; public administration and social organisation; water, environment and public utility management; leasing and commercial services and education, etc.

Discussion and Analysis of Operations

xi. Distribution of NPLs by collateral type

Unit: RMB million, %

Item	30 June 2019		31 December 2018	
	Balance	Percentage	Balance	Percentage
Unsecured loans	10,372	25.47	9,764	25.41
Guaranteed loans	14,429	35.44	14,327	37.30
Mortgage loans	13,334	32.75	12,465	32.44
Pledged loans	2,583	6.34	1,865	4.85
Total NPLs	40,718	100.00	38,421	100.00

xii. Repossessed assets and provision for impairment

Unit: RMB million

Item	30 June	31 December
	2019	2018
Reposessed assets	468	469
Of which: land, buildings and structures	468	469
Less: provision for impairment	(22)	(11)
Net value of reposessed assets	446	458

xiii. Provision for loan impairment losses and write-off

The Group's provision for loan impairment losses includes provision for impairment of corporate loans, personal loans measured at amortised cost as well as provision for impairment of discounted bills and domestic forfeiting at fair value through other comprehensive income. The Group conducted impairment test on the book value of credit assets on the balance sheet date according to objective evidences and forward-looking analysis, and recognised the provision for impairment losses through profit or loss for the current period.

Unit: RMB million

Item	As at	As at 31
	30 June 2019	December 2018
Balance at the beginning of the period ¹	67,209	58,071
Charge for the period ²	29,788	38,867
Release for the period	(7,008)	(4,153)
Recoveries due to written-off loans and advances for the period	1,274	1,527
Unwinding of discount ³	(433)	(792)
Write-offs during the period	(15,180)	(16,162)
Disposal in the period	(3,746)	(10,149)
Balance at the end of the period ¹	71,904	67,209

Notes:

1. It excludes provision for impairment of discounted bills and domestic forfeiting at fair value through other comprehensive income.
2. It includes provision for impairment of loans made due to change of stage and change in cash flow resulting in loan contract being not derecognised.
3. It refers to cumulative interest income of impaired loans due to the subsequent increase in present value over time.

VI. CAR ANALYSIS

Please refer to “Summary of Accounting Data and Financial Indicators” for more details.

VII. SEGMENT PERFORMANCE

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

i. Performance by regional segment

Unit: RMB million

Item	January – June 2019		January – June 2018	
	Operating income	Profit before tax	Operating income	Profit before tax
Yangtze River Delta	11,957	5,787	7,405	2,575
Central	10,596	2,916	5,388	1,219
Bohai Rim	9,866	(751)	6,656	(766)
Pearl River Delta	8,578	1,902	4,612	788
Western	7,105	942	3,784	669
Northeastern	2,937	425	1,620	(340)
Head Office	14,117	12,629	22,108	16,958
Overseas	1,068	632	730	557
Total	66,224	24,482	52,303	21,660

ii. Performance by business segment

Unit: RMB million

Item	January – June 2019		January – June, 2018	
	Operating income	Profit before tax	Operating income	Profit before tax
Corporate banking business	26,843	8,024	22,129	4,102
Retail banking business	27,039	5,336	21,613	10,122
Financial market business	12,247	11,066	8,501	7,393
Other business	95	56	60	43
Total	66,224	24,482	52,303	21,660

Please refer to “Notes to Financial Statements” for details of performance by business segment.

Discussion and Analysis of Operations

VIII. OTHERS

i. Changes in major financial indicators and reasons

Unit: RMB million, %

Item	30 June 2019	31 December 2018	Increase/ (Decrease)	Major reasons for change
Deposits with banks and other financial institutions	63,904	41,005	55.84	Increase in deposits with domestic banks
Placements with banks and other financial institution	67,307	96,685	-30.39	Decrease in placements with banks and other financial institutions
Financial assets held under resale agreements	67,039	37,773	77.48	Bonds held under resale agreements decreased
Debt instruments at fair value through other comprehensive income	202,347	153,987	31.41	Increase in bond investment
Right-of-use assets	11,203	–	N/A	Adding new items IFRS16
Deferred tax assets	15,515	10,794	43.74	Deferred tax assets increased
Other assets	56,475	20,447	176.20	Increase of the amount to be cleared
Financial assets sold under repurchase agreements	18,618	40,411	-53.93	Decrease in bonds sold under repurchase agreements
Taxes payable	8,505	5,666	50.11	Increase in income tax payable
Lease liabilities	10,469	–	N/A	Adding new items IFRS16
Other liabilities	58,914	44,320	32.93	Increase in long-term borrowings from subsidiaries
Other comprehensive income	2,295	1,655	38.67	Increase in fair value revaluation and impairment on debt instruments at fair value through other comprehensive income
Item	January-June 2019	January – June 2018 (Restated)	Increase/ (Decrease)	Major reasons for change
Net interest income	49,183	34,484	42.63	Increase of interest-earning assets and improvement of net interest margin
Net trading gains or losses	69	685	-89.93	Decrease in yield on held-for-trading bonds and increase in net loss on valuation of derivative financial instruments
Net gains or losses arising from investment securities	2,974	6,277	-52.62	Decrease in fund investment scale
Net foreign exchange gains or losses	778	90	764.44	Increase in net foreign exchange gains
Impairment losses on assets	(23,379)	(14,568)	60.48	More credit allowance was set aside

ii. Overdue and outstanding debts

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

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

1. Change in on-balance-sheet interest receivable

Unit: RMB million

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
On-balance-sheet interest receivable	32,881	120,027	118,713	34,195

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

2. Provisioning of allowance for bad debts of interest receivable

Unit: RMB million

Item	30 June 2019	31 December 2018	Increase
Balance of allowance for bad debts of interest receivable	3	4	(1)

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

1. Change in other receivables

Unit: RMB million

Item	30 June 2019	31 December 2018	Increase
Other receivables	49,316	13,738	35,578

2. Provisioning of allowance for bad debts of other receivables

Unit: RMB million

Item	30 June 2019	31 December 2018	Increase
Balance of allowance for bad debts of other receivables	636	632	4

Discussion and Analysis of Operations

IX. PERFORMANCE OF BUSINESS SEGMENTS

i. Corporate banking

1. Corporate deposits and loans

The Bank actively carried out channel-based business, expanded high-quality deposit sources and promoted the continuous growth of core deposits. In line with the policy orientation of the state, the Bank deepened business structural adjustment, increased credit extension to key strategic regions of the state and weak areas of infrastructure, and strengthened support for private enterprises and the real economy. It effectively controlled the cost of corporate liabilities, improved the allocation of credit resources, and raised the interest margin and the return on assets. As at the end of the reporting period, the balance of corporate deposits (including the corporate business related portion in other deposits) amounted to RMB2,228,035 million, representing an increase of RMB284,357 million or 14.63% over the end of the previous year. Among the above, core corporate Renminbi deposits increased by 9.72%; the balance of corporate loans was RMB1,424,627 million, an increase of RMB91,998 million or 6.90% over the end of the previous year.

2. Inclusive finance

The Bank established an inclusive finance mode featuring “specialised departments, specialised institutions and expert approval”, and improved the bank-wide inclusive finance business with the aim of “setting up Inclusive Financial Business Divisions, promoting Sunshine inclusive brand, improving technology system, exercising strict risk control mechanism and intensifying team building”. The Bank stepped up efforts in the development of special-purpose sub-branches and credit factories, cultivated the core advantages of the supply chain, enriched the quick loan product system, and explored innovations in the Fintech field. It actively carried out poverty alleviation for “agriculture, rural areas and farmers”, and improved the financing services for small and micro enterprises to meet the regulatory requirements of “two increases and two controls”. As at the end of the reporting period, the Bank’s balance of inclusive finance loans posted RMB147,235 million, representing an increase of RMB19,059 million or 14.87% over the end of the last year. The Bank had 351,300 SME customers in total, representing an increase of 42,400 customers as compared with the end of the previous year.

3. Investment banking

The Bank improved its comprehensive services by integrating internal resources and improving the “investment banking + commercial banking” linkage mechanism. During the reporting period, the Bank issued RMB187,623 million worth of bonds, and successfully underwrote RMB20 billion worth of medium-term notes of CHI. It actively promoted the development of asset securitisation business, and successfully issued RMB9,585 million worth of credit card installment asset-backed securities. Besides, the Bank vigorously promoted the development of M&A financing business, and reported rapid growth with a balance of more than RMB35 billion at the end of the reporting period.

4. Trade finance

The Bank gave full play to its advantages of capital-efficient assets in its famous trade finance brand “Sunshine Supply Chain”, and launched innovative products such as “Sunshine E-Settlement” online settlement financing platform and electronic summary tax guarantee by empowering online business with technology. The Bank supported the construction of the free trade zone and successfully launched the Hainan Free Trade (FT) account system. It promoted the development of wage guarantee business for migrant workers, and integrated financial services into the livelihood projects. It propelled the development of capital-efficient businesses such as domestic L/C, forfeiting and etc., resulting in a steady increase in its trade finance assets. As at the end of the reporting period, the overall balance of the on- and off-balance-sheet trade finance increased by 16.09% over the end of the previous year.

ii. Retail banking

1. Personal deposits

Adhering to the operating philosophy of “developing via deposit business”, the Bank strengthened product innovation, deepened customer-oriented integrated operations and kept the scale of personal deposits expanding on a steady footing. It launched the integrated financial service platform “Payroll Manager” exclusively for customers that have enabled payroll service. It continued to boost key programmes such as third-party depository, fund custody service, ETC service and “going abroad” finance. As at the end of the reporting period, the balance of personal deposits (including personal deposits in other deposits) of the Bank amounted to RMB694,564 million, representing an increase of RMB99,534 million or 16.73% as compared with the end of the previous year.

2. Personal loans

The Bank actively promoted the transformation and upgrading of personal loan business, reduced the financing cost of small and micro-sized enterprises through innovative risk mitigation methods, and supported the development of inclusive finance. It granted more small-amount consumption loans, improved business and customer structure through cooperation with internet platforms, and hence raised its overall income level. Besides, the Bank sped up the online, intensive and intelligent development of personal loan business, improved online marketing and risk control efficiency, and launched hit products of personal loans. As at the end of the reporting period, the balance of personal loans (excluding credit card loans) amounted to RMB676,284 million, representing an increase of RMB23,585 million or 3.61% as compared with the end of the previous year. The volume of personal loans granted by the Bank in the reporting period was RMB103,391 million.

3. Private banking

Aiming to become the “partner of companies and families”, the Bank provided private banking customers with one-stop integrated financial management solutions for individuals, households and enterprises. It strengthened refined operation and differentiated wealth management, launched financial butler service, and built a multi-level customer experiencing and wealth management system. It provided non-financial services such as law & tax consultation, health care, travel and inter-generational education to meet customers’ diversified needs. As at the end of the reporting period, the Bank had owned 30,112 private banking customers, representing an increase of 2,158 persons or 7.72% over the end of the last year. The total assets under management amounted to RMB354,767 million, representing an increase of RMB34,609 million or 10.81% as compared with the end of the previous year.

4. Bank card business

(1) Debit card business

The Bank actively cooperated with local human resources and social security departments (bureaus) in promoting the reform of the third-generation social security card system and the card issuance, and enhanced thesecurity keeping capability and the ability to serve people. It actively fulfilled the social responsibility by issuing the exclusive card for supporting the armed forces and launching a number of value-added services. It practiced environmental protection by issuing “source classification environmental protection” co-branded cards and assisting with garbage classification. The Bank continued to improve the classified management of individual bank settlement accounts, update the debit card function control and enhance the capability of risk management. As at the end of the reporting period, the accumulated number of debit cards issued by the Bank reached 67.1344 million, including 2.0544 million new cards issued in the year.

Discussion and Analysis of Operations

(2) Credit card business

The Bank emphasised the consumption purpose of credit cards and launched star products such as “TikTok”, “Xiaomi” and “StarMoly” co-branded cards based on customers’ demands. It built the tourist E-SBU to cover all types of online and offline tourist platform enterprises, and the growth rate and transaction scale of tourism customers hit new highs. The Bank promoted customer-oriented brand upgrading, offered full-process customer experience and dedicated to building “credit cards with the best understanding of customers”. The Bank issued 6.336 million new credit cards in the year. As at the end of the reporting period, the transaction volume arrived at RMB1,289,698 million, up by 21.13% year on year. The overdraft balance at the end of the reporting period (excluding the payment adjustment to transitional account) amounted to RMB427,411 million, up by 6.47% over the end of last year. The Bank generated an operating income of RMB23,186 million during the reporting period, up by 27.07% year on year.

5. Digital banking

Being customer-centric and focusing on five key business, namely, mobile banking, corporate services, remote banking, Cloud Payment and Sunshine Loan, the Bank accelerated digital transformation by pushing forward the ecological chain building of mobile finance, customer conversion and channel integration. As at the end of the reporting period, 98.34% transactions were handled through electronic channels, 0.43 percentage point higher than the end of last year. The Bank had 34.3043 million mobile banking customers and 587.6 thousand corporate online banking customers, up by 2.2467 million and 59.1 thousand over the previous year end respectively. The Bank boosted the intelligent transformation of remote banking centers, with customer satisfaction remaining above 99%. The transactions of “Cloud Payment” were valued at RMB5.30 trillion, representing a year-on-year increase of 187.50%. The Bank granted RMB214,000 million Sunshine Loans in the year, and the loan balance registered RMB65,341 million, up by RMB1,991 million over the previous year end.

6. Cloud fee payment

The Bank made every effort to build the three scenarios of “life circle, operation circle and government affairs circle”, maintained a rapid growth of access to cloud payment items, made breakthroughs in non-tax cloud and traffic cloud, and continued to maintain advantages as China’s largest open payment platform. It intensified the marketing of the export platform, further strengthened the list-based management, and added multiple partners. It sponsored the Chinese badminton team in their winning the “Sudirman Cup”, and won the “Payment Technology Honor Award” presented by the Institute of Financial Technologists of Asia (IFTA), which contributed to enhanced brand reputation. As at the end of the reporting period, there were accumulatively 5,842 items on the “Cloud Fee Payment” platform, an increase of 1,801 in the year. The platform users, at 237 million, grew by 41.36% year on year. They made a total payment of RMB141,415 million, up by 79.78% year on year.

iii. Financial market business

1. Treasury business

To create more profits, the Bank strengthened fund management, ensured liquidity safety and improved capital operation efficiency. It moderately increased the investment in bonds, improved bond investment structure by buying more treasury bonds, local government bonds, policy financial bonds and high-grade credit bonds. Moreover, it stepped up efforts in launching new franchise business products, and improved its service capabilities for the real economy. Moreover, the Bank increased the proportion of trading and franchise business in order to make transformation to asset efficiency business. It promoted the high-quality development of gold leasing business, and increased the intermediate income. As at the end of the reporting period, the balance of bonds in proprietary account amounted to RMB645,613 million, accounting for 13.89% of the Bank’s total assets, 54.13% of which were treasury bonds and local government bonds. The Bank accumulatively scored RMB22.01 trillion in RMB bond settlement, which was at the forefront of joint-stock commercial banks.

2. Interbank business

The Bank maintained a proper scale of interbank business, deepened the franchised management of interbank business, and upheld operational compliance. In response to market trends, the Bank resumed the original mission of the business, strengthened the management of interbank asset and liability portfolios, adjusted the term structure of assets and liabilities, and met the needs of the bank-wide liquidity management. Besides, the Bank further improved its interbank product structure, and increased the investment in standardised products to better serve the real economy. It strengthened the relationship management of customers and enhanced business collaboration with other banks and non-bank financial institutions to expand business cooperation and consolidate customer base. As at the end of the reporting period, the balance of interbank deposits amounted to RMB391,123 million.

3. Asset management business

Following the regulatory guidance, the Bank reasonably adjusted its product structure and endeavored to develop the net-asset-value (NAV) product system. Centering on the “Colourful Sunshine” product series, it developed new product channels, continuously expanded direct selling business, and actively promoted agency business. The Bank improved its investment R&D ability, strictly controlled risks, consolidated development foundation, and made its business management more foresighted and refined. It improved the system and mechanism, actively prepared for the establishment of the wealth management subsidiary and stimulated the sound transformation of wealth management business. As at the end of the reporting period, the Bank’s wealth management products had a balance of RMB702,291 million. In the first half of 2019, the Bank accumulatively issued RMB1.70 trillion of wealth management products. All products under “Sunshine Wealth Management” brand were honored upon maturity.

4. Asset custody services

Following the overall requirements of “market expansion, service improvement and risk prevention”, the Bank increased the efforts in marketing, and scaled up the custody services stably. It upgraded the new-generation custody system, built a sound custody product system and business system and improved its customer service capabilities. It actively advanced marketing of new products, and successively won the bids for the qualification of occupational annuity custody business in several provinces and autonomous regions, demonstrating its strong capability in custody and the market’s recognition of its business. As at the end of the reporting period, the Bank’s income after tax from custody business amounted to RMB795 million, and RMB5,376,767 million of assets were under the Bank’s custody.

X. BUSINESS INNOVATION

The Bank enabled business innovation based on technological innovation, continued to push forward digital and intelligent transformation, and built a shared ecosystem themed with agility and technology. It set up a technological innovation laboratory to put into practice its Fintech capabilities, and the innovative results have been applied in the “Bank-yi” financial supermarket. The Bank built an intelligent anti-money laundering model to intelligently identify suspicious anti-money laundering transactions through AI technology. It also established a bond warning system to actively respond to the potential risks in bond business.

XI. INFORMATION TECHNOLOGY

The Bank successively rolled out a raft of key projects such as inclusive finance cloud, trade finance cloud, online loan system, mobile banking 5.0, new-generation wealth management platform, new-generation customer service platform, intelligent profit analysis platform and cloud fee payment. It continued to build a Fintech support system, built an agile R&D system, comprehensively enhanced the power of big data computing and explored data value. It strengthened the security integration by establishing a new dynamic security defense system to ensure information security. Based on technological innovation, the Bank pushed forward the construction of intelligent operation and maintenance. It also steadily promoted the construction of remote R&D centers, and prepared for the building of a joint R&D and innovation center between the Head Office and branches, in a bid to share technological resources.

During the reporting period, the Bank’s information systems ran stably, with no major security incidents happened.

Discussion and Analysis of Operations

XII. INVESTMENT ANALYSIS

i. External Equity Investments

As at the end of the reporting period, the balance of the Bank's external equity investments amounted to RMB7,383 million, which was on a par with that at the end of the previous year.

ii. Material Equity Investments

Unit: RMB ten thousand, ten thousand shares, %

Investee	Principle business	Investment amount	Number of shares held	Percentage of shareholding	Profit or loss in the reporting period	Partner
Everbright Financial Leasing Co., Ltd.	Financial leasing	468,000	531,000	90	38,054	Wuhan New Harbor Construction and Investment Development Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Shaoshan Everbright Village Bank Co., Ltd.	Commercial banking	10,500	10,500	70	250	Sany Group Co., Ltd., Guangzhou BaoliHetai Financial Holding Co., Ltd., Changsha Tongcheng Holding Co., Ltd., Shaoshan City Construction Investment Company Limited
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	Commercial banking	7,000	7,000	70	309	Jiangsu East Golden Fox Garment Co., Ltd., Huai'an Shuanglong Weiye Technology Co., Ltd., Jiangsu Taihua Pharmaceutical Company Limited, Nanjing Mengdu Tobacco Packing Co., Ltd.
CEB International Investment Corporation Limited	Investment banking	HKD2.6 billion	-	100	3,038	Nil
China Everbright Bank (Europe) S.A.	Full-licensed banking business	EUR20 million	2,000	100	-2,464	Nil
Jiangxi Ruijin Everbright Village Bank Co., Ltd.	Commercial banking	10,500	10,500	70	154	Ruijin Hongdu Aquatic Food Co. Ltd., Ruijin Tourism Development and Investment Co. Ltd., Ruijin Lyuyexuan Forestry Co., Ltd., Ruijin Tiancheng Agricultural Products Co., Ltd.
China UnionPay Co., Ltd.	Bank card interbank information exchange network	9,750	7,500	2.56	774,200	Other commercial banks, etc.
National Financing Guarantee Fund Co., Ltd.	Re-guarantee	25,000	-	1.51	-	21 shareholders including MOF, Industrial and Commercial Bank of China, China Life Insurance (Group) Company, etc.

Notes:

- All the above-mentioned major equity investments were made with equity fund.
- All the above-mentioned major equity investments were long-term investments.
- All the above-mentioned equity investments were not subject to any litigation.

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

iv. Financial assets designated at fair value during the reporting period

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

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

XIV. ANALYSIS OF MAJOR COMPANIES IN WHICH THE BANK HELD EQUITY

i. Everbright Financial Leasing Co., Ltd.

Established in May 2010, the company engages in financial leasing business. It was registered in Wuhan City, Hubei Province with a registered capital of RMB5.9 billion. During the report period, the company mainly focused its financial leasing on fields related to national economy and people’s well-being, such as public utilities, infrastructure construction and urbanization, etc. It also formed certain brand advantages in the fields of aviation equipment and vehicle equipment, and actively explored to enter the field of new energy. As at the end of the reporting period, its total assets, net assets and net profit were RMB87,486 million, RMB8,757 million and RMB381 million, respectively.

ii. Shaoshan Everbright Village Bank Co., Ltd.

Founded in September 2009, the village bank engages in commercial banking services including deposit taking, lending, etc. It was registered in Shaoshan City, Hunan Province with a registered capital of RMB150 million. During the reporting period, it continued to serve “agriculture, rural areas and farmers” as well as the local area. It boosted the growth of micro business and county economy by exploring ways of supporting rural economic development with its financial products and services. As at the end of the reporting period, its total assets, net assets and net profit were RMB758 million, RMB217 million and RMB2.50 million, respectively.

iii. Jiangsu Huai’an Everbright Village Bank Co., Ltd.

Incorporated in February 2013, the village bank engages in commercial banking services including deposit taking, lending, etc. It was registered in Huai’an City, Jiangsu Province with a registered capital of RMB100 million. During the reporting period, it continued to serve “agriculture, rural areas and farmers”, developed the micro business, and achieved steady growth. As at the end of the reporting period, its total assets, net assets and net profit were RMB905 million, RMB126 million and RMB3.09 million, respectively.

iv. CEB International Investment Corporation Limited

Registered with a capital of HKD2.6 billion in Hong Kong in June 2015, the company has obtained the licenses for securities trading, securities consulting, financial consulting and asset management business. During the reporting period, the company focused on developing such investment banking businesses as listing sponsor and underwriting, public offering and placement of new shares on secondary market, and enterprise refinancing. As at the end of the reporting period, its total assets, net assets and net profit were RMB8,417 million, RMB2,250 million and RMB30.38 million, respectively.

Discussion and Analysis of Operations

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

The company was incorporated in Luxembourg in July 2017 with a registered capital of EUR20 million. As a fully-licensed banking institution, it mainly engages in deposit taking, loan granting, bill and bond issuance and any other business that can be conducted by credit institutions according to local laws. During the reporting period, it focused its efforts on developing import and export refinance and finance for local enterprises backed up by bank guarantee. As at the end of the reporting period, its total assets, net assets and net profit were RMB267 million, RMB96 million and RMB-24.64 million, respectively.

vi. Jiangxi Ruijin Everbright Village Bank Co., Ltd.

Incorporated in November 2018, the rural bank engages in commercial banking services including deposit taking, lending, etc. It was registered in Ruijin City, Jiangxi Province with a registered capital of RMB150 million. During the reporting period, the Bank actively served small, medium and micro enterprises, “agriculture, rural areas and farmers” and individual businesses to boost the economic development in county areas. As at the end of the reporting period, its total assets, net assets and net profit were RMB630 million, RMB151 million and RMB1.54 million, respectively.

XV. SPECIAL PURPOSE ENTITIES CONTROLLED BY THE BANK AND STRUCTURED PRODUCTS

1. There are no special purpose entities controlled by the Bank.
2. The structured products whose equities are held by the Group but not recognised in the consolidated financial statements mainly include special asset management plans. Please refer to “Notes to the Financial Statements” for details.

XVI. RISK MANAGEMENT

i. Credit risk management

The Bank continued to improve its comprehensive risk management system and strengthened the supervision and guidance on risk management of subsidiaries. Adhering to the principle of managing loans strictly according to the law, the Bank required its employees at all levels to fulfill their risk management responsibilities. It actively utilised emerging technologies such as big data, artificial intelligence, blockchain, internet of things, etc. to reform traditional risk control technologies and means, and thereby improved the digital and intelligent level of risk management and empowered business development.

The Bank upgraded its credit structure by adhering to the principle of “quality and efficiency come first and granting credits in term of return on capital. It strengthened the matching of deposits and loans, allocated credit resources reasonably, made good use of the increment, revitalised the existing credits and increased the flow. The Bank also actively cooperated with major national strategies and expanded strategic emerging industries, advanced manufacturing industries and modern service industries to resist cyclical fluctuations effectively.

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

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

ii. Liquidity risk management

The Bank held a prudent and sound liquidity risk management policy and upheld “daytime liquidity security and regulatory attainment” as its bottom line for risk management, in a bid to keep the bank-wide liquidity risk management indicators within an appropriate range. Acting on the guidance of regulatory policies and changes in the market, the Bank made reasonable arrangement for its business volume and term structure and lifted its refined management to higher level. At the same time, the Bank made preventive arrangements, adjusted internal fund transfer price dynamically, explored diversified stable liability channels, and reserved high quality liquidity assets, thereby enhancing its ability to withstand liquidity risk.

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

iii. Market risk management

The Bank continued to improve its market risk management system, enhance its ability to identify, measure and monitor market risk, and strengthen the market risk management of overseas institutions. It set reasonable market risk limits, and continuously monitored, controlled and reported the implementation of limits. As a result, all market risk monitoring indicators were within the range of risk appetite during the reporting period. Besides, the Bank carried out market risk stress tests on a regular basis to prevent extreme risk conditions.

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

iv. Operational risk management

The Bank focused its efforts on layered management, based its work on the three lines of defense, and continued to emphasise responsibilities of all business lines and functional departments as the “first line of defense” in operational risk management. By applying three operational tools including risk and control self-assessment (RCSA), loss data collection (LDC) and key risk indicator (KRI), the Bank forestalled the occurrence of material operational risk events and cases. Besides, the Bank continuously stepped up efforts to investigate whether there was abnormal information on financial transactions carried out by employees and customers and gave full play to the role of unannounced inspections.

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

v. Compliance risk management

The Bank kept strengthening the compliance risk management by reinforcing the foundation for internal control and compliance management of tier-2 branches continuously. It closely kept track of the changes in external laws and regulations, and upgraded its regulatory library correspondingly. The assessment and review of rules and policies were carried out in a bid to improve the Bank’s internal institutional environment. What’s more, the Bank organised special inspections on authorisation management, connected transactions and contract management, and strengthened the rectification of problems identified in inspections. Multiple means such as competition, guidance, lecture, and online training were comprehensively used to help all employees raise their awareness of compliance.

vi. Reputational risk management

The Bank continued to strengthen reputational risk management, fully implemented the public opinions risk screening policy and properly addressed reputational risk hazards. It continuously improved relevant rules and procedures, and established a public opinion management system featuring clear responsibilities, clear procedures and real-time monitoring and warning. It strengthened training and drills, and steadily improved the Bank’s reputational risk response capacity and work efficiency.

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

Discussion and Analysis of Operations

vii. Anti-money laundering (AML) management

The Bank formulated money laundering risk management policies and revised the AML internal control rules. It continuously improved the functions of AML system, strengthened the identification of beneficial owners and brought high-risk customers under intensified management. The Bank conducted the money laundering risk assessment of institutions, and set transaction restrictions on customers whose identity information were missing. Besides, it strictly fulfilled international obligations and fully acted on the UN Security Council's resolutions on economic sanctions and counter-terrorist financing (CTF).

XVII. OUTLOOK OF THE BANK

i. Fulfillment of operation plan

In the first half of 2019, the Bank kept optimizing asset and liability structure and improving operational efficiency in a well-rounded way with asset quality remained stable, realizing sound implementation of annual operation plan.

ii. Potential risks and countermeasures

Trade frictions and geopolitical risks occur frequently and there are still great uncertainties in the world economy. China's economy has maintained an overall steady and progressive development trend, but also faces new risk challenges and increasing downward pressure.

The Bank will adhere to the strategic vision of "building a first-class wealth management bank", and seize the two main lines of serving the real economy and public life to complete the task of "the year of value creation". We will focus on the following tasks: First, maintaining strategic focus and strengthening the strategy implementation. Second, strengthening the building of a customer group system across the Bank and consolidating the customer base. Third, pursuing innovation-driven development and promoting the transformation of development momentum. Fourth, improving the comprehensive risk management framework and the risk governance system, and promoting sustainable and healthy business development. Fifth, deepening the reform of systems and mechanisms, and integrating and optimizing resource allocation and business procedures. Sixth, doing a good job in the cultivation of the Everbright wealth ecology (Wealth E-SBU).

Significant Events

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

During the reporting period, the Bank, its de facto controllers and controlling shareholders did not make any new important undertakings. As at the end of the reporting period, all the continuing commitments made by the Bank, its de facto controllers and controlling shareholders were properly fulfilled. Please refer to the 2018 Annual Report for more details.

II. PURCHASE, SALE OR REPURCHASE OF THE BANK'S LISTED SECURITIES

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

III. MATTERS CONCERNING BANKRUPTCY OR REORGANISATION

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

IV. MATERIAL LITIGATION AND ARBITRATION MATTERS

The Bank was involved in some litigation and arbitration cases in its regular course of business, most of which were initiated by the Bank for the purpose of collecting non-performing loans. As at the end of the reporting period, the Bank is involved in 593 sued litigation and arbitration cases pending final judgment, which involved RMB3.3 billion. The above litigation and arbitration cases will not have a significant adverse impact on the financial position or operating performance of the Bank.

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

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

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

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

VII. CREDIBILITY OF THE BANK, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

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

VIII. IMPLEMENTATION OF STOCK INCENTIVE PLAN AND EMPLOYEE STOCK OWNERSHIP PLAN

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

Significant Events

IX. CHANGES IN ACCOUNTING POLICIES

For details of the changes in the accounting policies of the Bank during the reporting period, please refer to “Notes to Financial Statements”.

X. MATTERS CONCERNING CONNECTED TRANSACTIONS OF THE BANK UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON HKEX (HEREINAFTER REFERRED TO AS “THE HONG KONG LISTING RULES”)

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

On 20 June 2019, the Bank agreed to approve a cumulative non-performing asset transaction limit of RMB4 billion for Everbright Jin’ou Asset Management Limited (“Everbright Jin’ou AMC”), with a single transaction under the limit not exceeding RMB2.0 billion. The limit is valid for three years from 20 June 2019, with an annual limit of RMB4 billion. Everbright Golden is a legal person directly or indirectly controlled by China Everbright Group, a substantial shareholder of the Bank, and is a connected person of the Bank.

XI. MATERIAL CONTRACTS AND THEIR PERFORMANCE

i. Significant events of material custody, contracting or leasing assets of other companies, or other companies’ material custody, contracting or leasing assets of the Bank

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

ii. Significant guarantee

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

iii. Other material contracts

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

XII. FULFILLMENT OF SOCIAL RESPONSIBILITIES

i. Targeted poverty alleviation

During the reporting period, the Bank actively participated in poverty alleviation programs, and donated RMB6 million to the targeted counties of China Everbright Group. It implemented industrial poverty alleviation, and opened up market for agricultural products in poverty-stricken areas by using “Go Shopping” series e-commerce platforms. It implemented financial poverty alleviation, set up branches in targeted areas, and enhanced the availability of financial services there. Besides, it fulfilled social responsibilities through public welfare poverty alleviation, and donated RMB5 million to the Everbright Bank Sunshine Fund of the China Soong Ching Ling Foundation.

ii. Environment information

The Bank made vigorous efforts to develop green finance, support the development of energy-saving and eco-friendly industries, engaged in green operation and undertook environment-friendly public welfare activities. The Bank is not among the key pollutant discharging units published by the environmental protection authority. Please refer to the Corporate Social Responsibility Report 2018 for more details on environment protection information.

XIII. OTHER SIGNIFICANT EVENTS

i. Second Issuance of the Preference Shares

In March 2019, CSRC approved the Bank's non-public offering of up to 350 million preference shares. In July 2019, the Bank issued 350 million preference shares with a coupon rate of 4.80% and raised funds amounting to RMB35 billion. For details of the second issuance of preference shares, please refer to "Changes in Preference Share Capital and Shareholders".

ii. Issuance of non-fixed term capital bonds

In March 2019, the 35th Meeting of the Seventh Session of the Board of Directors of the Bank reviewed and approved the Proposal on Issuance of Non-fixed Term Capital Bonds, and agreed to issue non-fixed term capital bonds of no more than RMB40 billion or equivalent in foreign currencies. In May 2019, the Shareholders' General Meeting of the Bank considered and approved the proposal. As at the disclosure date of this Report, this matter is in progress.

iii. Approval of establishment of a wealth management subsidiary

In April 2019, CBIRC approved the Bank's capital contribution of RMB5 billion to establish Everbright Wealth Management Co., Ltd. As at the disclosure date of this Report, the wealth management company is under preparation.

iv. Complete the profit distribution for 2018

At the Annual General Meeting held in May 2019, the Bank considered and approved the profit distribution plan for ordinary shares for 2018, and distributed cash dividends to all ordinary shareholders at RMB1.61 (before tax) per 10 shares. As of the date of report disclosure, all the cash dividends totalling RMB8,450,777.4 thousand have been distributed.

v. Complete the election of the Board of Directors and the Board of Supervisors

Members of the Eighth Session of the Board of Directors and the Board of Supervisors were elected at the 2019 Second Extraordinary General Meeting held in July 2019. The Board of Directors consists of 17 members, including 9 Non-Executive Directors, 2 Executive Directors, 6 Independent Non-Executive Directors. The re-elected directors shall perform their duties right upon their election. The newly appointed directors shall formally perform their duties after their qualifications are approved by CBIRC. The Board of Supervisors consists of 9 members, including 3 Shareholder Supervisors, 3 External Supervisors, 3 Employee Supervisors.

For details, please refer to the announcement of the Shareholders' Meeting resolutions.

XIV. SIGNIFICANT EVENTS OF SUBSIDIARIES

i. Everbright Financial Leasing Co., Ltd.

During the reporting period, the company did not make profit distribution and was not involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

ii. Shaoshan Everbright Village Bank Co., Ltd.

During the reporting period, the village bank did not make profit distribution. It had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

Significant Events

iii. Jiangsu Huai'an Everbright Village Bank Co., Ltd.

In July 2019, the village bank distributed cash dividends of RMB6 million among all shareholders. During the reporting period, it was not involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

iv. CEB International Investment Corporation Limited

During the reporting period, the company did not make profit distribution and was not involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

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

During the reporting period, the company did not make profit distribution and was not involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

vi. Jiangxi Ruijin Everbright Village Bank Co., Ltd.

During the reporting period, the village bank did not make profit distribution. It had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty.

XV. REVIEW OF INTERIM RESULTS

Ernst & Young, as the external auditor, reviewed the Bank's interim financial statements, which were prepared according to the International Accounting Standards and the disclosure requirements prescribed in the Hong Kong Listing Rules. The Board of Directors of the Bank and its Audit Committee reviewed and approved the interim results and financial statements of the Bank for the six months ended 30 June 2019.

XVI. PUBLICATION OF INTERIM REPORT

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

Changes in Ordinary Share Capital and Shareholders

I. CHANGES IN SHARES

Unit: share, %

	31 December 2018		Changes during the reporting period	30 June 2019	
	Number	Percentage		Number	Percentage
			Conversion of convertible bonds		
I. Shares subject to trading moratorium	5,810,000,000	11.07	–	5,810,000,000	11.07
Shares held by state-owned legal persons	5,810,000,000	11.07	–	5,810,000,000	11.07
II. Shares not subject to trading moratorium	46,679,265,354	88.93	35,594	46,679,300,948	88.93
1. RMB-denominated ordinary shares	39,810,529,854	75.84	35,594	39,810,565,448	75.84
2. Overseas listed foreign shares	6,868,735,500	13.09	–	6,868,735,500	13.09
III. Total shares	52,489,265,354	100.00	35,594	52,489,300,948	100.00

II. NUMBER OF SHAREHOLDERS

Unit: Shareholder

	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	206,800	916

III. CONFIRMATION OF THE BANK'S COMPLIANCE WITH REQUIREMENT OF SUFFICIENCY OF PUBLIC FLOAT UNDER THE HONG KONG LISTING RULES

Based on the publicly available information and to the knowledge of the Directors, as at 30 June 2019, the Bank had maintained the minimum public float as required by the Hong Kong Listing Rules and the waiver granted by HKEX upon the IPO of the Bank.

Changes in Ordinary Share Capital and Shareholders

IV. SHAREHOLDING OF TOP TEN SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

Unit: Share, %

Name of shareholder	Nature of shareholder	Change in the reporting period (+, -)	Class of shares	Number of shares held	Shareholding percentage	Number of shares pledged/frozen
China Everbright Group Ltd.	Domestic legal person	–	A shares	11,565,940,276	22.03	–
		–	H shares	1,782,965,000	3.40	–
Hong Kong Securities Clearing Company Nominees Limited including Overseas Chinese Town Holdings Company	Overseas legal person	-1,610,030,100	H shares	11,063,241,380	21.08	Unknown
Ocean Fortune Investment Limited	Overseas legal person	–	H shares	1,605,286,000	3.06	–
China Life Reinsurance Company Ltd.	Domestic legal person	–	H shares	1,530,397,000	2.92	–
Central Huijin Investment Ltd.	State	–	A shares	10,250,916,094	19.53	–
China Everbright Limited	Overseas legal person	–	A shares	1,572,735,868	3.00	–
China Securities Finance Corporation Limited	Domestic legal person	–	A shares	1,550,215,694	2.95	–
China Reinsurance (Group) Corporation	Domestic legal person	–	A shares	413,094,619	0.79	–
		–	H shares	376,393,000	0.72	–
Shenergy (Group) Co., Ltd.	Domestic legal person	–	A shares	766,002,403	1.46	–
Shanghai COSCO Shipping Corporate Development Co., Ltd.	Domestic legal person	–	A shares	723,999,875	1.38	–
Hong Kong Securities Clearing Company Ltd.	Overseas legal person	140,752,862	A shares	650,905,014	1.24	–
Central Huijin Asset Management Ltd.	Domestic legal person	–	A shares	629,693,300	1.20	–

Notes:

- As at the end of reporting period, 1,610 million H shares held by China Everbright Group and 4,200 million H shares held by Overseas Chinese Town Holdings Company were subject to trading moratorium. Besides them, all other ordinary shares were not subject to trading moratorium.
- The Bank was aware that as at the end of the reporting period, CHI held 55.67% and 71.56% interest in China Everbright Group and China Reinsurance (Group) Corporation, respectively. Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of CHI. China Everbright Limited is a subsidiary indirectly controlled by China Everbright Group. China Life Reinsurance Company Ltd. is a wholly-owned subsidiary of China Reinsurance (Group) Corporation. Zhuhai Shipping Corporation Limited has changed its official name to Shanghai COSCO Shipping Corporate Development Co., Ltd. Shanghai COSCO Shipping Corporate Development Co., Ltd and Ocean Fortune Investment Limited are both subsidiaries indirectly controlled by China COSCO Shipping Corporation Limited. Save for the above, the Bank is not aware of any connected party relationship or concerted action among the above ordinary shareholders.

3. The total number of H shares of the Bank held by the Hong Kong Securities Clearing Company Nominees Limited acting as the nominee for all institutions and individual investors that maintain an account with it was 11,063,241,380 H shares as at the end of the reporting period. Among them, 4,200,000,000, 1,605,286,000, 1,530,397,000, 172,965,000 and 376,393,000 H shares of the Bank were held by Overseas Chinese Town Holdings Company, Ocean Fortune Investment Limited, China Life Reinsurance Company Ltd., China Everbright Group and China Reinsurance (Group) Corporation respectively. The number of remaining H shares of the Bank held under it was 3,178,200,380 H shares. 1,610,000,000 H shares previously held by Hong Kong Securities Clearing Company Nominees Limited on behalf of China Everbright Group were transferred to be held by China Everbright Group directly.
4. As at the end of reporting period, as the nominee holder, Hong Kong Securities Clearing Company Ltd. held, designated by and on behalf of others, 650,905,014 A shares of the Bank in total, including the shares under Shanghai Stock Connect held by Hong Kong and overseas investors.

V. DATE OF TRADING FOR SHARES SUBJECT TO TRADING MORATORIUM

Unit: Share

Time	Number of shares available for trading upon the expiration of trading moratorium	Remaining shares subject to trading moratorium	Remaining shares not subject to trading moratorium
22 December 2022	5,810,000,000	5,810,000,000	46,679,300,948

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

Unit: Share

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

VII. MAJOR SHAREHOLDERS

i. Holders Holding Shares of More than 5% of the Bank

1. China Everbright Group directly holds 25.43% shares of the Bank. As one of the Bank's substantial shareholders, the company's controlling shareholder is CHI, with the shareholding percentage up to 55.67%. There is no pledge or freezing of the company's equity.
2. CHI directly holds 19.53% shares of the Bank. As one of the Bank's substantial shareholders, the company's controlling shareholder is CIC, with the shareholding percentage up to 100%. There is no pledge or freezing of the company's equity.
3. Overseas Chinese Town Holdings Company directly holds 8% shares of the Bank. As one of the Bank's substantial shareholders, the company's controlling shareholder is the State-owned Assets Supervision and Administration Commission under the State Council of China, with the shareholding percentage up to 100%. There is no pledge or freezing of the company's equity.

Changes in Ordinary Share Capital and Shareholders

ii. Other Substantial Shareholders of regulatory standards

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

1. China COSCO Shipping Corporation Limited indirectly controls Shanghai COSCO Shipping Corporate Development Co., Ltd. and Ocean Fortune Investment Limited hold 4.44% of the Bank's shares in total, and dispatches directors to the Bank. Therefore, China COSCO Shipping Corporation Limited is a substantial shareholder of the Bank. There is no pledge or freezing of the company's equity.
2. China Reinsurance (Group) Corporation, directly and indirectly holding 4.42% of the Bank's shares and dispatching directors to the Bank, is a substantial shareholder of the Bank and dispatches directors to the Bank. Its controlling shareholder is CHI, with the shareholding percentage up to 71.56%. There is no pledge or freezing of the company's equity.
3. China Everbright Limited holds 3% of the Bank's shares and dispatches supervisors to the Bank, thus constituting one of the Bank's substantial shareholders. There is no pledge or freezing of the company's equity.
4. Shenergy (Group) Co., Ltd. holds 1.46% of the Bank's shares and dispatches supervisors to the Bank, thus constituting one of the Bank's substantial shareholders. The company is under the actual control of Shanghai Municipal State-owned Assets Supervision and Administration Commission. There is no pledge or freezing of the company's equity.

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

The Bank has treated as its related parties more than 1,900 enterprises including the above substantial shareholders and their controlling shareholders, de facto controllers, related parties, persons acting in concert and ultimate beneficiaries. During the reporting period, the Bank incurred 29 connected transactions with 24 related parties, involving a total amount of RMB30,524 million. The above connected transactions have been reported to the Board of Directors and its Related Party Transactions Control Committee for approval or filing purpose in accordance with related procedures.

VIII. INTERESTS OR SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2019, as far as the directors and supervisors of the Bank were aware, the following persons or corporations (other than directors, supervisors or chief executives of the Bank) had interests and short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance of Hong Kong (“HKSF”) or which were required to be notified to the Bank:

Name of substantial shareholder	Class of shares	Type of interest	Long/Short position	Number of shares	Percentage of relevant shares in issue (%) ^{4,5}	Percentage of the total issued shares (%) ^{4,5}
China COSCO Shipping Corporation Limited ¹	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.06
China Shipping (Group) Company ¹	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.06
COSCO Shipping Financial Holdings Co., Limited ¹	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.06
Ocean Fortune Investment Limited ¹	H Shares	Beneficial owner	Long	1,605,286,000	12.66	3.06
Central Huijin Investment Ltd. ²	H Shares	Interest of controlled corporation	Long	3,773,385,000	29.76	7.19
China Everbright Group Ltd. ²	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,866,595,000	14.72	3.56
China Reinsurance (Group) Corporation ²	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,906,790,000	15.04	3.63
China Life Reinsurance Company Ltd. ²	H Shares	Beneficial owner	Long	1,530,397,000	12.07	2.92
Overseas Chinese Town Holdings Company	H Shares	Beneficial owner	Long	4,200,000,000	33.13	8.00
China Everbright Group Ltd. ³	A shares	Beneficial owner/Interest of controlled corporation	Long	15,375,917,552	38.62	29.29
Central Huijin Investment Ltd. ³	A shares	Beneficial owner/Interest of controlled corporation	Long	26,669,621,565	66.99	50.81

Notes:

- Ocean Fortune Investment Limited holds a long position in 1,605,286,000 H shares of the Bank directly. As far as the Bank is aware, Ocean Fortune Investment Limited is wholly-owned by COSCO Shipping Financial Holdings Co., Limited, which is wholly-owned by China Shipping (Group) Company. China Shipping (Group) Company is wholly-owned by China COSCO Shipping Corporation Limited. In accordance with the HKSF, China COSCO Shipping Corporation Limited, China Shipping (Group) Company and COSCO Shipping Financial Holdings Co., Limited are deemed to be interested in the 1,605,286,000 H shares held by Ocean Fortune Investment Limited.
- China Life Reinsurance Company Ltd. holds a long position in 1,530,397,000 H shares of the Bank directly. China Reinsurance (Group) Corporation holds a long position in 376,393,000 H shares of the Bank directly. China Everbright Group directly holds a long position in 1,782,965,000 H shares of the Bank. China Everbright Holdings Company Limited holds a long position in 83,630,000 H Shares of the Bank directly. As far as the Bank is aware, China Life Reinsurance Company Ltd. is wholly-owned by China Reinsurance (Group) Corporation, while 71.56% of the issued share capital of China Reinsurance (Group) Corporation is held by CHI, and China Everbright Group Holdings Company Limited is wholly-owned by China Everbright Group, while 55.67% of the issued share capital of China Everbright Group is held by CHI. In accordance with the HKSF, China Reinsurance (Group) Corporation is deemed to be interested in the 1,530,397,000 H shares held by China Life Reinsurance Company Ltd., while China Everbright Group is deemed to be interested in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, CHI is deemed to be interested in a total of 3,773,385,000 H shares of the Bank indirectly.
- China Everbright Group directly holds a long position in 13,586,625,426 A shares of the Bank, and is deemed to be indirectly interested in a long position in a total of 1,789,292,126 A shares of the Bank held by its subsidiaries as follows:
 - China Everbright Limited directly holds a long position in 1,572,735,868 A shares of the Bank.
 - MeiguangEnyu (Shanghai) Properties Company Limited directly holds a long position of 148,156,258 A shares of the Bank.

Changes in Ordinary Share Capital and Shareholders

- (3) China Everbright Investment and Assets Management Co., Ltd. directly holds a long position of 8,000,000 A shares of the Bank.
- (4) Everbright Financial Holding Asset Management Co., Ltd. directly holds a long position of 60,400,000 A shares of the Bank.

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

CHI directly holds a long position in 10,250,916,094 A shares of the Bank, whereas China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly hold a long position of 413,094,619 and 629,693,300 A shares of the Bank, respectively. As far as the Bank is aware, 100% of the issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 55.67% of the issued share capital of China Everbright Group are held by CHI respectively. In accordance with the HKSF, CHI is deemed to be interested in the long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., the long position in 413,094,619 A shares held by China Reinsurance (Group) Corporation, and the long position in 13,586,625,426 A shares held by China Everbright Group. Therefore, CHI directly and indirectly holds a long position of 26,669,621,565 A shares of the Bank in total.

4. As at 30 June 2019, the total issued share capital of the Bank was 52,489,300,948 shares, including 39,810,565,448 A shares and 12,678,735,500 H shares.
5. The percentage of shareholdings is rounded to two decimal places.

Save as disclosed above, as at 30 June 2019, the Bank had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Bank which were required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the HKSF, or which were recorded in the register required to be kept by the Bank under Section 336 of the HKSF.

IX. INTERESTS OR SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK UNDER HONG KONG LAWS AND REGULATIONS

As at 30 June 2019, as far as the directors and supervisors of the Bank were aware, none of the directors, supervisors nor the chief executives of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Divisions 7 and 8 of Part XV of the HKSF) which were required to be recorded in the register required to be kept and notified to the Bank and HKEX under section 352 of the HKSF, or which were required to be notified to the Bank and HKEX pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* ("Model Code") set out in Appendix 10 to the Hong Kong Listing Rules, nor had they been granted the right to acquire any interests in shares or debentures of the Bank or any of its associated corporations.

Changes in Preference Share Capital and Shareholders

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

As at the disclosure date of this Report, the Bank has completed the issuance and listing of 350 million preference shares. The funds raised through the issuance will be used to supplement other tier one capital. The details are listed as follows:

Unit: %, Ten Thousand Shares

Code	Abbreviation	Date of issuance	Issuance price (RMB)	Coupon rate	Issuance volume	Date of listing	Approved volume for listing and trading	Date of delisting
360034	Everbright P3	15 July 2019	100	4.80	35,000	5 August 2019	35,000	-

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

i. Everbright P1 (Code 360013)

Unit: Share, %

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

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

Changes in Preference Share Capital and Shareholders

ii. Everbright P2 (Code 360022)

Unit: Share, %

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

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

iii. Everbright P3 (Code 360034)

Unit: Share, %

Number of preference shareholders as at the securities registration date (23 July) (shareholder)							19
Name of shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen	
China Ping An Life Insurance Co., Ltd.	Others	–	80,020,000	22.86	Domestic preference shares	–	
China Life Insurance Company Limited	Others	–	47,720,000	13.63	Domestic preference shares	–	
CCB Trust Co., Ltd.	Others	–	31,810,000	9.09	Domestic preference shares	–	
New China Life Insurance Company Limited	Others	–	27,270,000	7.79	Domestic preference shares	–	
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	27,270,000	7.79	Domestic preference shares	–	
Taiping Asset Management Co., Ltd.	Others	–	18,180,000	5.19	Domestic preference shares	–	
China Ping An Property & Casualty Insurance Co., Ltd.	Others	–	18,180,000	5.19	Domestic preference shares	–	
China Merchants Fund Management Co., Ltd.	Others	–	18,180,000	5.19	Domestic preference shares	–	
Postal Savings Bank of China Co., Ltd.	Others	–	13,630,000	3.89	Domestic preference shares	–	
Bosera Asset Management Co., Limited	Others	–	13,630,000	3.89	Domestic preference shares	–	

Note: China Ping An Life Insurance Co., Ltd. and China Ping An Property & Casualty Insurance Co., Ltd. have connected relations. Save as disclosed above, the Bank is not aware of any connected relations or concerted action among the above shareholders of preference share and the top ten shareholders of ordinary shares.

III. PROFIT DISTRIBUTION FOR PREFERENCE SHARES

As reviewed and approved by the 37th Meeting of the Seventh Session of the Board of Directors of the Bank, dividends were distributed to the shareholders of the first tranche of the issuance of preference shares (Everbright P1) in June 2019. The total dividends of RMB1,060 million (before tax) were distributed with a dividend rate of 5.30% (before tax).

As reviewed and approved by the First Meeting of the Eight Session of the Board of Directors of the Bank, dividends were distributed to shareholders of the second tranche of the issuance of preference shares (Everbright P2) in August 2019. The total dividends of RMB390 million (before tax) were distributed with a dividend rate of 3.90% (before tax).

IV. DURING THE REPORTING PERIOD, THERE WAS NO REDEMPTION OF PREFERENCE SHARES OR CONVERSION OF PREFERENCE SHARES INTO ORDINARY SHARES BY THE BANK.

Changes in Preference Share Capital and Shareholders

V. DURING THE REPORTING PERIOD, THERE WAS NO VOTING RIGHT RESTORATION OF THE PREFERENCE SHARES OF THE BANK.

VI. ACCOUNTING POLICIES FOR PREFERENCE SHARES OF THE BANK AND REASONS FOR ADOPTION

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

Convertible Corporate Bonds

I. OVERVIEW

On 17 March 2017, the Bank completed the issuance of the A share convertible bonds. The proceeds amounted to RMB30.0 billion and the net funds stood at some RMB29,923 million after deducting the issuance expense. On 5 April 2017, the above-mentioned A share convertible bonds were listed on SSE (bond name: Everbright Convertible Bonds, stock code: 113011).

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

	Unit: RMB, %	
Convertible bond holders at the period end	6,034	
Guarantors of convertible bonds of the Bank	Nil	
	Par value of bond held at period end	Percentage of bonds held
Top ten convertible bond holders		
China Everbright Group Ltd.	8,709,153,000	29.03
Specific account for collateralised bond repurchase in the securities depository and clearing system (Industrial and Commercial Bank of China)	2,162,162,000	7.21
Specific account for collateralised bond repurchase in the securities depository and clearing system (Bank of China)	1,606,704,000	5.36
Specific account for collateralised bond repurchase in the securities depository and clearing system (China Merchants Bank)	1,560,964,000	5.20
Specific account for collateralised bond repurchase in the securities depository and clearing system (China Minsheng Banking Corporation Limited (CMBC))	1,326,809,000	4.42
Specific account for collateralised bond repurchase in the securities depository and clearing system (China Construction Bank)	941,724,000	3.14
Specific account for collateralised bond repurchase in the securities depository and clearing system (Agricultural Bank of China)	523,283,000	1.74
Specific account for collateralised bond repurchase in the securities depository and clearing system (Bank of Communications)	516,600,000	1.72
Anbang Asset Management—CMBC—Anbang Asset—Wenjian Jingxuan No.1 Collective Asset Management Product (Tranche V)	495,819,000	1.65
Anbang Asset—CMBC—Anbang Asset—Shengshi Jingxuan No.2 Collective Asset Management Product	447,193,000	1.49

III. CHANGES IN CONVERTIBLE BONDS

During the reporting period, a total of RMB147,000 “Everbright Convertible Bonds” were converted into A shares of the Bank, and the number of converted shares reached 35,594.

Convertible Corporate Bonds

IV. PREVIOUS ADJUSTMENTS OF CONVERSION PRICE

On 25 June 2019 (the date of record), the Bank distributed dividends on ordinary shares (A share) for 2018. In accordance with the applicable provisions in *the Prospectus on Public Issuance of A Share Convertible Corporate Bonds* as well as the relevant laws and regulations, the Bank, after the issuance of A share convertible bonds, shall adjust the conversion price in the event of a dividend distribution. Therefore, after this dividend distribution, the “Everbright Convertible Bonds” saw its initial conversion price adjusted from RMB4.13 per share to RMB3.97 per share as of 26 June 2019 (the ex-dividend date). Previous adjustments of conversion price were as follows:

Unit: RMB per share

Date of adjustment	Conversion price after adjustment	Disclosure date	Media of disclosure	Reasons for adjustment
5 July 2017	4.26	27 June 2017	HKEX website, website of the Bank	Due to profit distribution for ordinary A shares for 2016
26 December 2017	4.31	22 December 2017	Ibid.	Due to non-public issuance of H shares
27 July 2018	4.13	20 July 2018	Ibid.	Due to profit distribution for ordinary A shares for 2017
26 June 2019	3.97	18 June 2019	Ibid.	Due to profit distribution for ordinary A shares for 2018
Conversion price as at the end of the reporting period				3.97

V. THE BANK'S OUTSTANDING DEBTS, CREDITWORTHINESS AND AVAILABILITY OF CASH FOR REPAYMENT OF DEBTS IN FUTURE YEARS

In accordance with the applicable provisions in the *Administrative Measures for the Issuance of Securities by Listed Companies and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, the Bank entrusted China Chengxin Securities Rating Co., Ltd. (“CCXR”) to track and rate the credit standing of its A share convertible bonds issued in March 2017. CCXR issued the *Tracking and Rating Report on A Share Convertible Corporate Bonds (2019) of China Everbright Bank Company Limited*, maintaining the credit rating of the Bank’s bond as AAA with a stable outlook and the credit rating of the bond issuer as AAA, incurring no change. The Bank managed to remain stable in all aspects of operation, as exemplified by the reasonable asset structure, the basically steady liabilities, and the robust credit position. In future years, cash flows from operating and investment activities will constitute the cash sources of debt service.

Directors, Supervisors, Senior Management, Staff and Business Outlets

I. NONE OF THE CURRENT DIRECTORS, SUPERVISORS OR SENIOR MANAGEMENT OR THOSE LEFT OFFICE DURING THE REPORTING PERIOD HELD SHARES OR SHARE OPTIONS OF THE BANK, OR WERE GRANTED RESTRICTED SHARES OF THE BANK DURING THE REPORTING PERIOD.

II. PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

As at the end of the reporting period, the Board of Directors consisted of 14 directors, including 1 Executive Director (Mr. Ge Haijiao), 7 Non-Executive Directors (Mr. Li Xiaopeng, Mr. Cai Yunge, Mr. Fu Dong, Mr. Shi Yongyan, Mr. Wang Xiaolin, Mr. He Haibin, and Mr. Zhao Wei), and 6 Independent Non-Executive Directors (Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, Mr. Feng Lun, and Mr. Wang Ligu).

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

As at the end of the reporting period, the Senior Management was composed of 7 members. They are Mr. Ge Haijiao, Mr. Lu Hong, Mr. Wu Jian, Mr. Yao Zhongyou, Mr. Huang Haiqing, Mr. Sun Qiang, and Mr. Li Jiayan.

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

i. Appointment and Resignation of Directors

- On 7 January 2019, due to expiration of his term of office, Mr. Qiao Zhimin resigned from the positions of Independent Non-Executive Director, Chairman and member of the Remuneration Committee, member of the Nomination Committee, member of the Risk Management Committee, member of the Audit Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. He would continue to perform his duties before the qualifications of the succeeding independent non-executive director were approved by CBIRC.
- On 7 January 2019, due to expiration of his term of office, Mr. Xie Rong resigned from the positions of Independent Non-Executive Director, Chairman and member of the Audit Committee, member of the Nomination Committee, member of the Remuneration Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank.
- On 22 January 2019, CBIRC approved Mr. Ge Haijiao's qualifications for serving as Executive Director of the Bank.
- On 30 May 2019, the Bank's 2018 Annual General Meeting elected Mr. Shao Ruiqing as an Independent Non-Executive Director of the Bank. On 5 August 2019, CBIRC approved his qualifications for serving as Independent Non-Executive Director.
- On 30 May 2019, the Bank's 2018 Annual General Meeting elected Mr. Hong Yongmiao as an Independent Non-Executive Director of the Bank. His qualification for serving as independent non-executive director is subject to the approval of CBIRC.

ii. Appointment and Resignation of Supervisors

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

iii. Appointment and Resignation of Senior Management Members

There was no newly appointed or resigned senior management members during the reporting period.

Directors, Supervisors, Senior Management, Staff and Business Outlets

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

Mr. He Haibin, Non-Executive Director of the Bank, concurrently served as Secretary of the Party Committee of Shenzhen Overseas Chinese Town Capital Investment Management Co., Ltd.

V. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

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

VI. BASIC INFORMATION ON STAFF AND BUSINESS OUTLETS

As at the end of the reporting period, the Bank had 44,473 employees (excluding those of subsidiaries).

As at the end of the reporting period, the Bank had 1,267 domestic branches and outlets, which consisted of 39 tier-1 branches, 102 tier-2 branches, and 1,126 outlets, representing an increase of 15 branches and outlets over the end of the previous year. The Bank has established 4 overseas branches which are Hong Kong Branch, Seoul Branch, Luxembourg Branch and Sydney Branch.

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

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)	Address
Head Office	1	6,636	3,226,454	China Everbright Center, No. 25, Taipingqiao Avenue, Xicheng District, Beijing
Beijing Branch	70	2,627	553,375	No. 1, Xuanwumen Nei Street, Xicheng District, Beijing
Shanghai Branch	56	1,805	245,523	No. 1118, Shiji Avenue, Pudong New Area, Shanghai
Tianjin Branch	34	991	75,592	Annex Building of Zhonglian Building, No. 83, Qufu Avenue, Heping District, Tianjin City
Chongqing Branch	27	912	92,414	No. 168, Minzu Road, Yuzhong District, Chongqing City
Shijiazhuang Branch	54	1,337	115,288	No. 56, Yuhua East Road, Shijiazhuang City
Taiyuan Branch	36	1,054	100,361	No. 295, Yingze Street, Taiyuan City
Huhhot Branch	20	590	41,626	Tower D, Dongfangjunzuo, Chilechuan Street, Saihan District, Huhhot, Inner Mongolia Autonomous Region
Dalian Branch	24	695	45,630	No. 4, Wuwu Road, Zhongshan District, Dalian City
Shenyang Branch	37	1,199	76,157	No. 156, Hepingbei Street, Heping District, Shenyang City
Changchun Branch	39	955	54,368	No. 2677, Jiefang Road, Changchun City
Heilongjiang Branch	38	1,040	45,227	No. 278, Dongdazhi Street, Nangang District, Harbin City
Nanjing Branch	51	1,515	208,956	No. 120, Hanzhong Road, Nanjing City
Suzhou Branch	21	874	98,930	No. 188, Xinghai Street, Industrial Park District, Suzhou City
Wuxi Branch	9	332	75,023	No. 1, Renmin Middle Road, Wuxi City
Hangzhou Branch	39	1,279	203,573	Zheshang Times Building, No. 1, Miduqiao Road, Gongshu District, Hangzhou City
Ningbo Branch	19	739	61,884	No. 1 Building, Hengfu Plaza, No. 828, Fuming Road, Jiangdong District, Ningbo City
Hefei Branch	52	1,401	159,077	No. 200, Changjiang West Road, Hefei City
Fuzhou Branch	41	1,299	79,333	No. 1 Building, Zhengxiang Center, No. 153, Wuyi North Road, Shuibu Sub-district, Gulou District, Fuzhou City
Xiamen Branch	17	517	44,833	China Everbright Bank Building, No. 81, Hubin South Road, Ximan City
Nanchang Branch	29	733	67,088	No. 399, Guangchang South Road, Nanchang City
Ji'nan Branch	35	946	66,201	No. 85, Jingqi Road, Ji'nan City

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)	Address
Qingdao Branch	35	1,037	78,078	No. 69, Hongkong West Road, Qingdao City
Yantai Branch	15	487	44,090	No. 111, South Street, Yantai City
Zhengzhou Branch	49	1,318	123,563	No. 18, Nongye Road, Zhengzhou City
Wuhan Branch	37	1,094	97,058	No. 143-144, Yanjiang Avenue, Jiangan District, Wuhan City
Changsha Branch	61	1,487	109,299	No. 142, Section 3 of Furong Middle Road, Tianxin District, Changsha City
Guangzhou Branch	88	2,491	227,429	No. 685, Tianhe North Road, Guangzhou
Shenzhen Branch	50	1,219	212,947	No. 18, Zizhu Qidao and Zhuzilin Silu, Shenzhen City
Nanning Branch	30	847	64,972	Oriental Manhattan Plaza, No. 52-1, Jinhua Road, Nanning City
Haikou Branch	22	747	44,482	Ground Floor, World Trade Center D/E, Shima East Road, Jinmao District, Haikou City
Chengdu Branch	29	976	98,387	No. 79, Dacisi Road, Chengdu City
Kunming Branch	23	739	41,756	No. 28, Renmin Middle Road, Kunming City
Xi'an Branch	39	1,088	74,053	No. 33, Hongguang Street, Xi'an City
Urumqi Branch	7	193	12,627	No. 165, Nanhu East Road, Urumqi City
Guiyang Branch	14	359	28,697	West Tower III, Guiyang International Financial Center, Guanshanhu District, Guiyang City
Lanzhou Branch	11	321	19,239	No. 555, Donggang West Road, Chengguan District, Lanzhou City
Yinchuan Branch	5	137	4,961	No. 219, Jiefang West Street, Xingqing District, Yinchuan City
Xining Branch	2	93	3,920	No. 57-7, Wusi West Road, Chengxi District, Xining City
Lhasa Branch	2	69	4,314	No. 1 Building, Taihe International Culture Square, No. 7 Jinzhu Middle Road, Chengguan District, Lhasa City
Hong Kong Branch	1	190	131,783	30/F., Far East Finance Center, No. 16, Harcourt Road, Hong Kong
Seoul Branch	1	35	17,150	23/F, Wing Fung Building, 41 Cheonggyecheon Road, Jongnogu, Seoul, Korea
Luxembourg Branch	1	40	27,155	No. 10, Avenue Emile Reuter, Luxembourg City, Luxembourg
Sydney Branch	1	30	5,557	28/F, International Tower 1, 100 Barangaroo Avenue, Sydney, Australia
Adjustment on consolidation			(2,649,942)	
Total	1,272	44,473	4,558,448	

Notes:

- The employees of the Head Office of the Bank included 2,916 staff members in the Credit Card Center and 1,726 staff members in the Remote Banking Center
- The number of outlets, employees and the total assets listed in the above table excluded those of the subsidiaries of the Bank.

Corporate Governance

I. OVERVIEW OF CORPORATE GOVERNANCE

During the reporting period, focusing on the strategic vision of “building a first-class wealth management bank”, the Board of Directors of the Bank maintained strategic focus and stepped up efforts in strategy implementation. It continued to replenish its capital, promoted the completion of the issuance of RMB35.0 billion preference shares, and considered and approved the proposal on the issuance of non-fixed term capital bonds. It kept improving its authorisation system by amending *the Plan of Authorisation by Shareholders’ General Meeting to the Board of Directors* and *the Plan of Authorisation by the Board of Directors to the President*. It improved its equity management by formulating the *Interim Measures for Equity Management*, explored in the annual assessment of substantial shareholders of the Bank on a trial basis, and established and perfected the routine communication mechanism. It made further improvements to its related party transactions management mechanism and strictly reviewed major related party transactions. Moreover, it intensified efforts in self-development and launched the election of the Board of Directors and the Board of Supervisors.

As at the disclosure date of this Report, the Bank’s 2019 Second Extraordinary General Meeting had elected members of the Eighth Session of the Board of Directors and the Board of Supervisors, among whom the newly appointed directors will perform their duties after their qualifications are approved by CBIRC. For details about the election, please refer to the announcement of the shareholders’ meeting released by the Bank.

The Board of Supervisors of the Bank continued to carry out the annual evaluation on duty performance of the Board of Directors and its members, the Senior Management and Supervisors. It reviewed regular reports of the Bank, fulfilled its duties of financial supervision, and strengthened the supervision over internal control and risk management. It organised surveys on operation and development, serving the real economy, strategy implementation, internal control compliance, and risk management, with an aim to constantly improve its supervision ability and play a better role in supervision.

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

II. SHAREHOLDERS’ GENERAL MEETINGS

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

On 27 February 2019, the Bank convened the 2019 First Extraordinary General Meeting, 2019 First A Shareholders’ Class Meeting, 2019 First H Shareholders’ Class Meeting, and 2019 First Preference Shareholders’ Class Meeting, considered and approved 4 proposals on the engagement of accounting firms for the year of 2019, the extension of the validity period of the resolutions in respect of plan of domestic non-public preference shares issuance, etc., and hearing 2 reports.

On 30 May 2019, the Bank convened the 2018 Annual General Meeting, considered and approved 12 proposals on the 2018 work report of the Board of Directors, the 2018 work report of the Board of Supervisors, the final accounts report and budget plan, the profit distribution plan, the remuneration of the directors and supervisors, the election of independent non-executive directors, the issuance of non-fixed term capital bonds, and the amendments to *the Plan of Authorisation by Shareholders’ General Meeting to the Board of Directors*, and heard 2 reports.

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

III. CONVENING OF MEETINGS OF THE BOARD OF DIRECTORS AND ITS SPECIAL COMMITTEES

During the reporting period, the Board of Directors of the Bank held 6 meetings, including 4 on-site meetings, namely the 33rd, 34th, 35th and 37th meetings of the Seventh Session of the Board of Directors, and 2 meetings via written resolutions, namely the 36th and 38th meetings of the Seventh Session of the Board of Directors. The Board of Directors considered a total of 70 proposals and heard 11 reports, effectively played its role in scientific decision-making.

The special committees under the Board of Directors convened 23 meetings in total, including 3 meetings of the Strategy Committee, 4 meetings of the Audit Committee, 4 meetings of the Risk Management Committee, 3 meetings of the Nomination Committee, 1 meeting of the Remuneration Committee, 6 meetings of the Related Party Transaction Control Committee, and 2 meeting of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The special committees considered 49 proposals in total and heard and studied 28 special reports.

IV. CONVENING OF MEETINGS OF THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES

During the reporting period, the Board of Supervisors of the Bank convened 4 meetings, including 3 on-site meetings, namely the 16th, 17th and 19th meetings of the Seventh Session of the Board of Supervisors, and 1 meeting by written resolutions, namely the 18th meetings of the Seventh Session of the Board of Supervisors. The Board of Supervisors considered a total of 16 proposals and heard 5 reports, effectively performed its supervisory duty.

The special committees of the Board of Supervisors convened 5 meetings in total, including 2 meetings of the Supervision Committee and 3 meetings of the Nomination Committee, and considered 11 proposals in total.

V. INFORMATION DISCLOSURE

During the reporting period, the Bank published the 2018 Annual Report and 2019 First Quarterly Report to fully disclose the operations and management of the Bank to domestic and foreign investors. Pursuant to the regulatory rules for information disclosure, 54 A share ad hoc announcements (including online non-announcement documents) and 69 H share ad hoc announcements (including overseas regulatory announcements) were published. Following relevant regulatory rules, the Bank continued to strengthen the management of insiders to prevent leakage of sensitive information, and ensure the rights of investors to fair access to the information of the Bank.

VI. INVESTOR RELATIONSHIP

During the reporting period, the Bank held the 2018 financial results (A+H shares) announcement and press conference in Beijing and Hong Kong. Over 100 institutional investors, bank analysts and media correspondents from home and abroad participated in this communication event. Besides, the Bank held road shows for the first quarter of 2019 in Beijing and Shanghai, which were attended by over 100 chief analysts and professional investors from home and abroad. The 19 visiting and on-site surveys were arranged for 220 domestic and overseas bank analysts and institutional investors. The Bank participated in 13 investment strategy seminars organised by securities traders and served 150 investors in total. Additionally, it answered over 160 phone calls from domestic and overseas investors and replied over 100 emails for inquiry. It interacted with investors via interactive online platforms such as “SSE e-interaction”, updated the contents of the Bank’s website in both Chinese and English versions, and actively communicated with minority shareholders attending the shareholders’ general meetings.

Corporate Governance

VII. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Bank has adopted the standards set out in the *Model Code* in the Appendix 10 to the *Hong Kong Listing Rules* as the code of conduct to govern the securities transactions by Directors and Supervisors of the Bank. Upon enquiry, all Directors and Supervisors confirmed that they had always complied with the *Model Code* during the six months ended 30 June 2019. The Bank has also formulated guidelines regarding the dealing of the Bank's securities by relevant employees and the guidelines are no less exacting than the *Model Code*. It has not come to the attention of the Bank that any employee was in violation of the guidelines during the reporting period.

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

During the six months ended 30 June 2019, the Bank applied the principles of the *Corporate Governance Code* stipulated in Appendix 14 to the *Hong Kong Listing Rules*, and complied with all the code provisions.

Report on Review of Interim Financial Information

To the Board of Directors of China Everbright Bank Company Limited

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

INTRODUCTION

We have reviewed the accompanying interim financial information of China Everbright Bank Company Limited (the “Bank”) and its subsidiaries (together, the “Group”), which comprises the condensed consolidated statement of financial position as at 30 June 2019 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young

Certified Public Accountants

Hong Kong
28 August 2019

Unaudited Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2019	2018 (Restated)
Interest income		103,050	88,239
Interest expense		(53,867)	(53,755)
Net interest income	1	49,183	34,484
Fee and commission income		14,097	11,782
Fee and commission expense		(1,348)	(1,304)
Net fee and commission income	2	12,749	10,478
Net trading gains	3	69	685
Dividend income		11	8
Net gains arising from investment securities	4	2,974	6,277
Net foreign exchange gains		778	90
Other net operating income		460	281
Operating income		66,224	52,303
Operating expenses	5	(18,363)	(16,075)
Operating profit before impairment		47,861	36,228
Impairment losses on assets	6	(23,379)	(14,568)
Profit before tax		24,482	21,660
Income tax	7	(3,998)	(3,559)
Net profit		20,484	18,101
Net profit attributable to:			
Equity shareholders of the Bank		20,444	18,075
Non-controlling interests		40	26
		20,484	18,101
Earnings per share			
Basic earnings per share (in RMB/share)	8	0.37	0.32
Diluted earnings per share (in RMB/share)	8	0.33	0.29

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

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2019	2018
Net profit		20,484	18,101
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		5	3
– Related income tax effect	21(b)	(1)	(1)
Subtotal		4	2
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		728	1,068
– Changes in allowance for expected credit losses		248	(350)
– Reclassified to the profit or loss upon disposal		(161)	210
– Related income tax effect	21(b)	(183)	(286)
– Exchange differences on translation of financial statements		4	16
Subtotal		636	658
Other comprehensive income, net of tax		640	660
Total comprehensive income		21,124	18,761
Total comprehensive income attributable to:			
Equity shareholders of the Bank		21,084	18,735
Non-controlling interests		40	26
		21,124	18,761

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

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2019	31 December 2018
Assets			
Cash and deposits with the central bank	9	378,356	366,575
Deposits with banks and other financial institutions	10	63,904	41,005
Precious metals		23,184	23,628
Placements with banks and other financial institutions	11	67,307	96,685
Derivative financial assets	12	10,859	15,212
Financial assets held under resale agreements	13	67,039	37,773
Loans and advances to customers	14	2,530,577	2,361,278
Finance lease receivables	15	77,403	63,333
Financial investments	16	1,325,585	1,301,080
– Financial assets at fair value through profit or loss		169,571	222,737
– Debt instruments at fair value through other comprehensive income		202,347	153,987
– Equity instruments at fair value through other comprehensive income		373	367
– Financial investments measured at amortised cost		953,294	923,989
Fixed assets	18	18,332	18,241
Right-of-use assets	19	11,203	–
Goodwill	20	1,281	1,281
Deferred tax assets	21	15,515	10,794
Other assets	22	56,475	20,447
Total assets		4,647,020	4,357,332
Liabilities and equity			
Liabilities			
Due to the central bank	24	242,156	267,193
Deposits from banks and other financial institutions	25	391,123	490,091
Placements from banks and other financial institutions	26	164,314	152,037
Financial liabilities at fair value through profit or loss	27	7	354
Derivative financial liabilities	12	10,575	14,349
Financial assets sold under repurchase agreements	28	18,618	40,411
Deposits from customers	29	2,958,862	2,571,961
Accrued staff costs	30	8,257	8,028
Taxes payable	31	8,505	5,666
Lease liabilities		10,469	–
Debt securities issued	32	441,135	440,449
Other liabilities	33	58,914	44,320
Total liabilities		4,312,935	4,034,859

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

	Note III	30 June 2019	31 December 2018
Equity			
Share capital	34	52,489	52,489
Other equity instrument	35	35,108	35,108
of which: preference shares		29,947	29,947
Capital reserve	36	53,533	53,533
Other comprehensive income	37	2,295	1,655
Surplus reserve	38	24,371	24,371
General reserve	38	54,037	54,036
Retained earnings	39	111,228	100,296
Total equity attributable to equity shareholders of the Bank		333,061	321,488
Non-controlling interests		1,024	985
Total equity		334,085	322,473
Total liabilities and equity		4,647,020	4,357,332

Approved and authorised for issue by the board of directors on 28 August 2019.

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

Ge Haijiao
President
Executive Director

Yao Zhongyou
Vice President in Charge of Finance

Sun Xinhong
General Manager of Financial Accounting Department

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

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

For the six months ended 30 June 2019	Note III	Attributable to equity shareholders of the Bank									Non-controlling interests	Total	
		Other equity instrument			Other			Surplus reserve	General reserve	Retained earnings			Subtotal
		Share capital	Preference shares	Others	Capital reserve	comprehensive income							
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473	
Changes in equity for the period:													
Net profit		-	-	-	-	-	-	-	20,444	20,444	40	20,484	
Other comprehensive income	37	-	-	-	-	640	-	-	-	640	-	640	
Appropriation of profit:	39												
- Appropriation to general reserve		-	-	-	-	-	-	1	(1)	-	-	-	
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	(8,451)	(8,451)	(1)	(8,452)	
- Dividends to preference shareholders		-	-	-	-	-	-	-	(1,060)	(1,060)	-	(1,060)	
Balance at 30 June 2019		52,489	29,947	5,161	53,533	2,295	24,371	54,037	111,228	333,061	1,024	334,085	

For the six months ended 30 June 2018	Note III	Attributable to equity shareholders of the Bank									Non-controlling interests	Total	
		Other equity instrument			Other			Surplus reserve	General reserve	Retained earnings			Subtotal
		Share capital	Preference shares	Others	Capital reserve	comprehensive income							
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436	
Impact of adopting new Standards		-	-	-	-	725	-	-	(9,480)	(8,755)	(16)	(8,771)	
Balance at 1 January 2018		52,489	29,947	5,161	53,533	(1,120)	21,054	52,257	82,684	296,005	660	296,665	
Changes in equity for the period:													
Net profit		-	-	-	-	-	-	-	18,075	18,075	26	18,101	
Other comprehensive income	37	-	-	-	-	660	-	-	-	660	-	660	
Appropriation of profit:	39												
- Appropriation to general reserve		-	-	-	-	-	-	1	(1)	-	-	-	
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	(9,501)	(9,501)	-	(9,501)	
- Dividends to preference shareholders		-	-	-	-	-	-	-	(1,060)	(1,060)	-	(1,060)	
Balance at 30 June 2018		52,489	29,947	5,161	53,533	(460)	21,054	52,258	90,197	304,179	686	304,865	

For the year of 2018	Note III	Attributable to equity shareholders of the Bank									Non-controlling interests	Total	
		Other equity instrument			Other			Surplus reserve	General reserve	Retained earnings			Subtotal
		Share capital	Preference shares	Others	Capital reserve	comprehensive income							
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436	
Impact of adopting new Standards		-	-	-	-	725	-	-	(9,480)	(8,755)	(16)	(8,771)	
Balance at 1 January 2018		52,489	29,947	5,161	53,533	(1,120)	21,054	52,257	82,684	296,005	660	296,665	
Changes in equity for the year:													
Net profit		-	-	-	-	-	-	-	33,659	33,659	62	33,721	
Other comprehensive income	37	-	-	-	-	2,775	-	-	-	2,775	1	2,776	
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	265	265	
Appropriation of profit:	39												
- Appropriation to surplus reserve		-	-	-	-	-	3,317	-	(3,317)	-	-	-	
- Appropriation to general reserve		-	-	-	-	-	-	1,779	(1,779)	-	-	-	
- Dividends to ordinary shareholders		-	-	-	-	-	-	-	(9,501)	(9,501)	(3)	(9,504)	
- Dividends to preference shareholders		-	-	-	-	-	-	-	(1,450)	(1,450)	-	(1,450)	
Balance at 31 December 2018		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473	

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

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2019	2018 (Restated)
Cash flows from operating activities		
Net profit	20,484	18,101
<i>Adjustments for:</i>		
Impairment losses on assets	23,379	14,568
Depreciation and amortisation	2,261	1,059
Unwinding of discount	(433)	(473)
Dividend income	(11)	(8)
Unrealised foreign exchange gains	(3)	(112)
Net gains on investment securities	(26,812)	(29,396)
Net (gains)/losses on disposal of trading securities	(484)	25
Revaluation losses on financial instruments at fair value through profit or loss	1,377	6
Interest expense on debt securities issued	8,243	9,708
Interest expense on lease liabilities	236	–
Net losses on disposal of fixed assets	6	3
Income tax	3,998	3,559
	32,241	17,040
<i>Changes in operating assets</i>		
Net (increase)/decrease in deposits with the central bank, banks and other financial Institutions	(4,237)	38,421
Net decrease/(increase) in placements with banks and other financial institutions	16,822	(2,269)
Net increase in financial assets held for trading	(20,535)	(11,518)
Net increase in loans and advances to customers	(190,681)	(215,875)
Net (increase)/decrease in financial assets held under resale agreements	(29,234)	28,979
Net increase in other operating assets	(48,911)	(5,592)
	(276,776)	(167,854)
<i>Changes in operating liabilities</i>		
Net (decrease)/increase in deposits from banks and other financial institutions	(100,679)	27,886
Net increase in placements from banks and other financial institutions	12,014	52,309
Net decrease in financial assets sold under repurchase agreements	(21,762)	(10,985)
Net (decrease)/increase in amount due to central bank	(25,000)	19,500
Net increase in deposits from customers	383,891	162,869
Income tax paid	(6,573)	(4,954)
Net increase/(decrease) in other operating liabilities	17,813	(5,458)
	259,704	241,167
Net cash flows from operating activities	15,169	90,353

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

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	For the six months ended 30 June	
		2019	2018 (Restated)
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		242,850	229,668
Investment income received		28,148	26,266
Proceeds from disposal of fixed assets and other assets		4	57
Payments on acquisition of investments		(248,317)	(224,869)
Payments on acquisition of fixed assets, intangible assets and other long-term assets		(1,339)	(1,100)
Net cash flows from investing activities		21,346	30,022
Cash flows from financing activities			
Net proceeds from issue of new debt securities		1,822	–
Repayments of debts issued		–	(67,401)
Interest paid on debt securities issued		(9,379)	(10,956)
Dividends paid		(9,510)	(1,060)
Other net cash flows from financing activities		(1,338)	–
Net cash flows from financing activities		(18,405)	(79,417)
Effect of foreign exchange rate changes on cash and cash equivalents		38	792
Net increase in cash and cash equivalents	43(a)	18,148	41,750
Cash and cash equivalents as at 1 January		187,680	147,923
Cash and cash equivalents as at 30 June	43(b)	205,828	189,673
Interest received		78,130	65,302
Interest paid (excluding interest expense on debt securities issued)		(40,704)	(44,025)

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

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

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

The principal activities of the Bank and its subsidiaries (Note III 17) (collectively the “Group”) are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC (“Hong Kong”), Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to countries and regions other than Mainland China.

II BASIS OF PREPARATION

1 Compliance with International Financial Reporting Standards (“IFRSs”)

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

Except as described in Note II 3 below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2018.

2 Use of estimates and assumptions

The preparation of the consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions. The nature and assumptions related to the Group’s accounting estimates are consistent with those adopted in the Group’s financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

II BASIS OF PREPARATION (CONTINUED)

3 Significant accounting policies

3.1 Standards, amendments and interpretations effective in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretations.

IFRS 16	<i>Leases</i>
IFRIC Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>
IAS 19 Amendments	<i>Plan amendment, Curtailment or Settlement</i>
IAS 28 Amendments	<i>Long-term Interests in Associates and Joint Ventures</i>
Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)	

In January 2016, the IASB issued IFRS 16 – Leases, which replaced IAS 17 and IFRIC 4. Under IFRS 16, the classifications of finance lease and operating lease for lessees is removed, and lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and low-value assets leases elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. The Group has adopted IFRS 16 from 1 January 2019 and applied the modified retrospective approach without restating comparative figures. The Group has not reassessed the existing contracts before 1 January 2019 (date of initial application) and has used practical expedients. As a lessee, the Group has elected to exercise the recognition exemption not to recognise the right-of-use assets and lease liabilities for the leases of which the underlying assets are of low value or for which the contract would end within 12 months from the date of initial application, and has recognised the profit or loss on a straight-line basis over the lease term. Therefore, the financial information for the six-month period ended 30 June 2019 related to leasing presented on the interim financial information is not comparable with the comparative financial information presented in the 2018 financial statements in accordance with the former lease standards.

For the minimum lease payment for the operating leases disclosed in the financial statements of 2018, the Group used its incremental borrowing interest rate on 1 January 2019 to discount the lease payment. The reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is as follows:

Minimum lease payment for operating leases as at 31 December 2018	12,079
Less: minimum lease payment with recognition exemption – short-term lease	(112)
Add: minimum lease payment rising from reasonably exercising an option to extend the lease and others	1,206
Less: the impact of lease payment discounted at incremental borrowing interest rate as at 1 January 2019	(2,131)
Lease liabilities as at 1 January 2019	11,042
Right-of-use assets as at 1 January 2019	11,829

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

II BASIS OF PREPARATION (CONTINUED)

3 Significant accounting policies (continued)

3.1 Standards, amendments and interpretations effective in 2019 (continued)

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for “significant market fluctuations” in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 – Financial Instruments (“IFRS 9”) to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs.

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

3.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 3 Amendments	<i>Definition of a Business</i>	1 January 2020
IAS 1 and IAS 8 Amendments	<i>Definition of Material</i>	1 January 2020
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 indefinitely

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

3.3 Changes in presentation of financial statements

In accordance with the requirements of the Circular on Revising and Issuing 2018 Versions of Financial Statement Templates for Financial Enterprises (Cai Kuai [2018] No. 36), the Group has restated the financial statements for the six months ended 30 June 2018. The changes in the presentation of financial statements have no impact on the Group’s profit and equity.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	For the six months ended 30 June	
		2019	2018 (Restated)
Interest income arising from			
Deposits with the central bank		2,493	2,589
Deposits with banks and other financial institutions		953	406
Placements with banks and other financial institutions		1,824	3,631
Loans and advances to customers	(a)		
– Corporate loans and advances		34,631	28,915
– Personal loans and advances		34,977	26,986
– Discounted bills		953	603
Finance lease receivables		2,073	1,530
Financial assets held under resale agreements		1,251	1,370
Investments		23,895	22,209
Subtotal		103,050	88,239
Interest expenses arising from			
Due to the central bank		4,030	3,987
Deposits from banks and other financial institutions		6,500	12,643
Placements from banks and other financial institutions		3,389	2,595
Deposits from customers			
– Corporate customers		22,528	18,855
– Individual customers		8,235	5,372
Financial assets sold under repurchase agreements		942	595
Debt securities issued		8,243	9,708
Subtotal		53,867	53,755
Net interest income		49,183	34,484

Note:

(a) The interest income arising from impaired financial assets for the period ended 30 June 2019 amounted to RMB433 million (Six months ended 30 June 2018: RMB473 million).

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

2 Net fee and commission income

	For the six months ended 30 June	
	2019	2018 (Restated)
Fee and commission income		
Bank card service fees	6,957	5,421
Agency services fees	1,919	1,706
Underwriting and advisory fees	1,096	861
Settlement and clearing fees	1,067	815
Custody and other fiduciary business fees	855	771
Acceptance and guarantee fees	824	633
Wealth management service fees	266	502
Others	1,113	1,073
Subtotal	14,097	11,782
Fee and commission expense		
Bank card transaction fees	964	762
Settlement and clearing fees	68	58
Others	316	484
Subtotal	1,348	1,304
Net fee and commission income	12,749	10,478

3 Net trading gains

	For the six months ended 30 June	
	2019	2018 (Restated)
Trading financial instruments		
– Derivatives	(393)	(151)
– Debt securities	535	776
Subtotal	142	625
Financial instruments designated at fair value through profit or loss	–	1
Precious metals contract	(73)	59
Total	69	685

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

4 Net gains arising from investment securities

	For the six months ended 30 June	
	2019	2018 (Restated)
Net gains arising from financial investments at fair value through profit or loss	2,848	6,306
Net (losses)/gains arising from debt instruments at fair value through other comprehensive income	(116)	111
Net gains arising from loans and advances to customers at fair value through other comprehensive income	93	79
Net losses arising from financial investments measured at amortised cost	(12)	(9)
Net revaluation gains/(losses) reclassified from other comprehensive income on disposal	161	(210)
Total	2,974	6,277

5 Operating expenses

	For the six months ended 30 June	
	2019	2018
Staff costs		
– Salaries and bonuses	8,055	7,068
– Pension and annuity	970	912
– Housing allowances	406	369
– Staff welfares	168	143
– Others	1,045	953
Subtotal	10,644	9,445
Premises and equipment expenses		
– Depreciation of the right-of-use assets	1,158	–
– Depreciation of fixed assets	738	696
– Rental and property management expenses	265	1,359
– Interest expense on lease liabilities	236	–
– Amortisation of intangible assets	189	162
– Amortisation of other long-term assets	176	201
Subtotal	2,762	2,418
Tax and surcharges	695	561
Other general and administrative expenses	4,262	3,651
Total	18,363	16,075

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

6 Impairment losses on assets

	For the six months ended 30 June	
	2019	2018
Credit impairment losses		
Loans and advances to customers	22,896	14,351
– measured at amortised cost	22,780	14,759
– measured at fair value through other comprehensive income	116	(408)
Debt instruments at fair value through other comprehensive income	133	58
Financial investments measured at amortised cost	(46)	(106)
Finance lease receivables	344	(2)
Others	4	210
Subtotal	23,331	14,511
Other impairment losses		
Other assets	48	57
Subtotal	48	57
Total	23,379	14,568

7 Income tax

(a) Income tax:

	Note III	For the six months ended 30 June	
		2019	2018
Current tax		9,021	4,027
Deferred tax	21(b)	(4,905)	(306)
Adjustments for prior year	7(b)	(118)	(162)
Total		3,998	3,559

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

7 Income tax (continued)

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

	Note	For the six months ended 30 June	
		2019	2018
Profit before tax		24,482	21,660
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		6,121	5,415
Effect of different tax rates applied by certain subsidiaries		(3)	–
Non-deductible expenses			
– Staff costs		48	18
– Impairment losses on assets		49	706
– Others		154	151
Subtotal		251	875
Non-taxable income	(i)	(2,253)	(2,569)
Subtotal		4,116	3,721
Adjustments for prior year		(118)	(162)
Income tax		3,998	3,559

Note:

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

8 Basic and diluted earnings per ordinary share

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

	For the six months ended 30 June	
	2019	2018
Net profit attributable to equity holders of the Bank	20,444	18,075
Less: dividends on preference shares declared	1,060	1,060
Net profit attributable to ordinary shareholders of the Bank	19,384	17,015
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Basic earnings per share (in RMB/share)	0.37	0.32

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

8 Basic and diluted earnings per ordinary share (continued)

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

	For the six months ended 30 June	
	2019	2018
Issued ordinary shares as at 1 January	52,489	52,489
Weighted average number of ordinary shares in issue	52,489	52,489

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

	For the six months ended 30 June	
	2019	2018
Net profit attributable to ordinary shareholders of the Bank	19,384	17,015
Add: interest expense on convertible bonds, net of tax for the six months ended 30 June	446	429
Net profit used to determine diluted earnings per share	19,830	17,444
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,264	6,960
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,753	59,449
Diluted earnings per share (in RMB/share)	0.33	0.29

9 Cash and deposits with the central bank

	Note	30 June 2019	31 December 2018
Cash on hand		5,171	4,721
Deposits with the central bank			
– Statutory deposit reserves	(a)	262,517	254,574
– Surplus deposit reserves	(b)	106,461	103,684
– Foreign currency risk reserves	(c)	1,831	857
– Fiscal deposits		2,248	2,603
Subtotal		378,228	366,439
Accrued interest		128	136
Total		378,356	366,575

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

9 Cash and deposits with the central bank (continued)

Note:

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

	30 June 2019	31 December 2018
Reserve ratio for RMB deposits	11.00%	12.00%
Reserve ratio for foreign currency deposits	5.00%	5.00%

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 30 June 2019, the foreign currency risk reserve ratio was 20% (31 December 2018:20%).

10 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2019	31 December 2019
Deposits in mainland China		
– Banks	49,180	12,815
– Other financial institutions	941	246
Deposits outside mainland China		
– Banks	14,211	28,382
Subtotal	64,332	41,443
Accrued interest	8	10
Total	64,340	41,453
Less: Provision for impairment losses	(436)	(448)
Net balances	63,904	41,005

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

11 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2019	31 December 2018
Placements in mainland China		
– Banks	7,108	20,767
– Other financial institutions	42,339	53,420
Placements outside mainland China		
– Banks	17,787	22,162
Subtotal	67,234	96,349
Accrued interest	249	530
Total	67,483	96,879
Less: Provision for impairment losses	(176)	(194)
Net balances	67,307	96,685

12 Derivatives

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

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

(a) Analysed by nature of contract

	30 June 2019		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,454,556	4,176	(4,230)
– Interest rate futures	619	–	(10)
Currency derivatives			
– Foreign exchange forward	18,956	177	(122)
– Foreign exchange swap and cross-currency interest rate swap	1,350,793	5,894	(5,567)
– Foreign exchange option	157,190	582	(617)
Credit derivatives	2,897	30	(29)
Total	2,985,011	10,859	(10,575)

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

12 Derivatives (continued)

(a) Analysed by nature of contract (continued)

	31 December 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,972,544	4,323	(4,280)
– Interest rate futures	3,275	2	(24)
Currency derivatives			
– Foreign exchange forward	18,331	166	(237)
– Foreign exchange swap and cross-currency interest rate swap	1,215,774	9,984	(9,112)
– Foreign exchange option	124,117	640	(661)
– Foreign exchange futures	27	–	–
Credit derivatives	4,756	97	(35)
Total	3,338,824	15,212	(14,349)

(b) Analysed by credit risk-weighted amounts

	30 June 2019	31 December 2018
Counterparty default risk-weighted assets		
– Interest rate derivatives	394	77
– Currency derivatives	3,715	1,547
– Credit derivatives	323	–
Credit value adjustment	2,086	724
Total	6,518	2,348

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

As at 30 June 2019, the Group did not hold any derivatives used as hedge instruments in accounting treatment.

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

13 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
In mainland China		
– Banks	1,940	5,395
– Other financial institutions	65,035	31,919
Outside mainland China		
– Other financial institutions	–	427
Subtotal	66,975	37,741
Accrued interest	65	34
Total	67,040	37,775
Less: Provision for impairment losses	(1)	(2)
Net balances	67,039	37,773

(b) Analysed by type of security held

	30 June 2019	31 December 2018
Bonds		
– Government bonds	14,110	8,196
– Other debt securities	52,538	29,545
Bank acceptances	327	–
Subtotal	66,975	37,741
Accrued interest	65	34
Total	67,040	37,775
Less: Provision for impairment losses	(1)	(2)
Net balances	67,039	37,773

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019
(Expressed in millions of Renminbi, unless otherwise stated)

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

14 Loans and advances to customers

(a) Analysed by nature

	30 June 2019	31 December 2018
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,401,506	1,306,473
Discounted bills	1,300	1,339
Personal loans and advances		
– Personal housing mortgage loans	395,191	381,772
– Personal business loans	157,513	145,502
– Personal consumption loans	123,580	125,425
– Credit cards	429,093	400,504
Subtotal	1,105,377	1,053,203
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	23,121	26,156
Discounted bills	61,666	34,158
Subtotal	84,787	60,314
Total	2,592,970	2,421,329
Accrued interest	9,511	7,158
Gross loans and advances to customers	2,602,481	2,428,487
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(71,904)	(67,209)
Net loans and advances to customers	2,530,577	2,361,278
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(589)	(473)

As at the end of the reporting period, part of the above loans and advances to customers was pledged for repurchase agreements, see Note III 23(a).

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

14 Loans and advances to customers (continued)

(b) Analysed by economic sector

	30 June 2019		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	255,337	9.84%	96,649
Water, environment and public utility management	241,748	9.32%	107,881
Real estate	210,740	8.13%	138,068
Leasing and commercial services	163,071	6.28%	65,677
Wholesale and retail trade	113,468	4.38%	37,567
Transportation, storage and postal services	91,321	3.52%	38,864
Construction	86,011	3.32%	30,326
Finance	74,613	2.88%	2,085
Production and supply of electricity, gas and water	44,276	1.71%	11,677
Agriculture, forestry, husbandry and fishery	39,095	1.51%	9,733
Others	104,947	4.05%	41,331
Subtotal of corporate loans and advances	1,424,627	54.94%	579,858
Personal loans and advances	1,105,377	42.63%	535,698
Discounted bills	62,966	2.43%	58,197
Total	2,592,970	100.00%	1,173,753
Accrued interest	9,511		
Gross loans and advances to customers	2,602,481		
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(71,904)		
Net loans and advances to customers	2,530,577		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(589)		

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

14 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2018		Loans and advances secured by collaterals
	Amount	Percentage	
Manufacturing	248,914	10.28%	78,477
Water, environment and public utility management	222,568	9.19%	103,210
Real estate	192,075	7.93%	120,395
Leasing and commercial services	150,159	6.20%	59,439
Wholesale and retail trade	111,021	4.59%	38,958
Transportation, storage and postal services	94,783	3.91%	40,528
Construction	71,435	2.95%	26,018
Finance	74,177	3.06%	3,325
Production and supply of power, gas and water	43,638	1.80%	11,195
Agriculture, forestry, husbandry and fishery	32,356	1.34%	8,962
Others	91,503	3.78%	38,537
Subtotal of corporate loans and advances	1,332,629	55.03%	529,044
Personal loans and advances	1,053,203	43.50%	519,182
Discounted bills	35,497	1.47%	31,119
Total	2,421,329	100.00%	1,079,345
Accrued interest	7,158		
Gross loans and advances to customers	2,428,487		
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)		
Net loans and advances to customers	2,361,278		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)		

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

14 Loans and advances to customers (continued)

(c) Analysed by type of collateral

	30 June 2019	31 December 2018
Unsecured loans	804,621	778,691
Guaranteed loans	614,596	563,293
Secured loans		
– By tangible assets other than monetary assets	858,790	814,026
– By monetary assets	314,963	265,319
Total	2,592,970	2,421,329
Accrued interest	9,511	7,158
Gross loans and advances to customers	2,602,481	2,428,487
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(71,904)	(67,209)
Net loans and advances to customers	2,530,577	2,361,278
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(589)	(473)

(d) Analysed by geographical sector

	30 June 2019		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	505,668	19.50%	209,143
Central	414,059	15.97%	245,576
Bohai Rim	353,383	13.63%	199,668
Western	345,502	13.32%	205,837
Pearl River Delta	321,852	12.41%	215,966
Northeastern	123,887	4.78%	82,954
Overseas	94,654	3.65%	9,644
Head Office	433,965	16.74%	4,965
Total	2,592,970	100.00%	1,173,753

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

14 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

	31 December 2018		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	478,383	19.76%	197,173
Central	382,965	15.82%	219,430
Bohai Rim	341,728	14.11%	188,325
Western	325,532	13.44%	195,562
Pearl River Delta	291,896	12.06%	187,691
Northeastern	119,667	4.94%	78,825
Overseas	78,040	3.22%	9,682
Head Office	403,118	16.65%	2,657
Total	2,421,329	100.00%	1,079,345

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

	30 June 2019			
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)
Bohai Rim	9,063	(2,509)	(1,780)	(5,550)
Yangtze River Delta	8,606	(7,081)	(4,334)	(4,979)
Pearl River Delta	4,515	(4,143)	(1,524)	(2,071)
Western	4,172	(3,255)	(3,771)	(1,945)
Central	3,977	(5,062)	(2,910)	(2,307)
Total	30,333	(22,050)	(14,319)	(16,852)

	31 December 2018			
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)
Bohai Rim	9,196	(2,387)	(2,056)	(5,856)
Yangtze River Delta	5,599	(6,787)	(4,798)	(2,898)
Pearl River Delta	4,516	(3,945)	(1,816)	(2,135)
Central	4,477	(4,412)	(2,954)	(2,328)
Western	4,398	(3,076)	(3,930)	(2,032)
Total	28,186	(20,607)	(15,554)	(15,249)

For the definition of regional divisions, see Note III 46(b).

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

14 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue period

	30 June 2019					Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years		
Unsecured loans	12,163	9,040	693	195		22,091
Guaranteed loans	8,307	7,036	4,126	503		19,972
Secured loans						
– By tangible assets other than monetary assets	7,842	6,495	3,981	1,662		19,980
– By monetary assets	2,087	2,052	295	34		4,468
Subtotal	30,399	24,623	9,095	2,394		66,511
Accrued interest	950	–	–	–		950
Total	31,349	24,623	9,095	2,394		67,461
As a percentage of gross loans and advances to customers	1.20%	0.95%	0.35%	0.09%		2.59%

	31 December 2018					Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years		
Unsecured loans	10,014	8,443	394	29		18,880
Guaranteed loans	6,625	7,418	2,667	522		17,232
Secured loans						
– By tangible assets other than monetary assets	6,525	4,715	4,492	1,772		17,504
– By monetary assets	1,427	741	1,103	2		3,273
Subtotal	24,591	21,317	8,656	2,325		56,889
Accrued interest	349	–	–	–		349
Total	24,940	21,317	8,656	2,325		57,238
As a percentage of gross loans and advances to customers	1.03%	0.88%	0.35%	0.10%		2.36%

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

14 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	30 June 2019				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,419,756	132,496	40,718	2,592,970	1.57%
Accrued interest	7,146	2,242	123	9,511	
Gross loans and advances to customers	2,426,902	134,738	40,841	2,602,481	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,897)	(22,072)	(24,935)	(71,904)	
Net loans and advances to customers	2,402,005	112,666	15,906	2,530,577	

	31 December 2018				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,245,353	137,555	38,421	2,421,329	1.59%
Accrued interest	5,354	1,576	228	7,158	
Gross loans and advances to customers	2,250,707	139,131	38,649	2,428,487	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(23,335)	(21,264)	(22,610)	(67,209)	
Net loans and advances to customers	2,227,372	117,867	16,039	2,361,278	

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

14 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	Note	For the six months ended 30 June 2019			Total
		Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	
As at 1 January 2019	(i)	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1		(1,497)	1,465	32	–
Transfer to Stage 2		520	(632)	112	–
Transfer to Stage 3		122	2,922	(3,044)	–
Charge for the period		(6,023)	(6,021)	(17,744)	(29,788)
Release for the period		5,316	1,458	234	7,008
Disposal		–	–	3,746	3,746
Write-off and transfer out		–	–	15,180	15,180
Recovery of loans and advances written off		–	–	(1,274)	(1,274)
Unwinding of discount on allowance		–	–	433	433
As at 30 June 2019	(i)	(24,897)	(22,072)	(24,935)	(71,904)

	Note	2018			Total
		Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	
As at 1 January 2018	(i)	(18,666)	(18,271)	(21,134)	(58,071)
Transfer to Stage 1		(1,073)	1,048	25	–
Transfer to Stage 2		867	(898)	31	–
Transfer to Stage 3		164	3,038	(3,202)	–
Charge for the year		(7,412)	(7,137)	(24,318)	(38,867)
Release for the year		2,785	956	412	4,153
Disposal		–	–	10,149	10,149
Write-off and transfer out		–	–	16,162	16,162
Recovery of loans and advances written off		–	–	(1,527)	(1,527)
Unwinding of discount on allowance		–	–	792	792
As at 31 December 2018	(i)	(23,335)	(21,264)	(22,610)	(67,209)

Note:

- (i) Provision for impairment losses represents provision for impairment losses of loans and advances to customers measured at amortised cost.
- (ii) As at 30 June 2019, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income is RMB589 million (31 December 2018: RMB473 million).

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

14 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	30 June 2019	31 December 2018
Rescheduled loans and advances to customers	14,424	15,788
Of which: Rescheduled loans and advances to customers overdue more than 90 days	786	801

15 Finance lease receivables

	Note	30 June 2019	31 December 2018
Minimum finance lease receivables		91,869	74,656
Less: unearned finance lease income		(13,240)	(10,287)
Present value of minimum lease receivable		78,629	64,369
Accrued interest		742	588
Less: impairment losses		(1,968)	(1,624)
Net balance	(i)	77,403	63,333

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

	30 June 2019	31 December 2018
Less than 1 year (inclusive)	21,381	19,073
1 year to 2 years (inclusive)	18,827	14,924
2 year to 3 years (inclusive)	15,429	12,298
3 year to 4 years (inclusive)	11,527	8,718
4 year to 5 years (inclusive)	8,410	6,301
More than 5 years	16,295	13,342
Total	91,869	74,656

Note:

(i) As at the end of the reporting period, part of finance lease receivables were pledged for borrowing from banks, see Note III 23(a).

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

16 Financial investments

	Note	30 June 2019	31 December 2018
Financial assets at fair value through profit or loss	(a)	169,571	222,737
Debt instruments at fair value through other comprehensive income	(b)	202,347	153,987
Equity instruments at fair value through other comprehensive income	(c)	373	367
Financial investments measured at amortised cost	(d)	953,294	923,989
Total		1,325,585	1,301,080

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

	Note	30 June 2019	31 December 2018
Debt instruments held for trading	(i)	31,854	10,886
Financial assets designated at fair value through profit or loss	(ii)	5	6
Other financial assets at fair value through profit or loss	(iii)	137,712	211,845
Total		169,571	222,737

(i) Debt instruments held for trading

	Note	30 June 2019	31 December 2018
Issued by the following governments or institutions:			
In mainland China			
– Government		7,611	–
– Banks and other financial institutions		5,760	1,006
– Other institutions	(1)	16,881	8,323
Outside mainland China			
– Government		36	–
– Banks and other financial institutions		355	170
– Other institutions		1,211	1,387
Total		31,854	10,886
Listed	(2)	2,021	2,257
Of which listed in Hong Kong		1,326	1,809
Unlisted		29,833	8,629
Total		31,854	10,886

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

16 Financial investments (continued)

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

(i) Debt instruments held for trading (continued)

Note:

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

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

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

	30 June 2019	31 December 2018
Fixed interest rate personal mortgage loans	5	6

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

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

	30 June 2019	31 December 2018
Fund investments	111,622	180,633
Equity instruments	1,286	1,182
Others	24,804	30,030
Total	137,712	211,845

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

16 Financial investments (continued)

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

(i) Analysed by type and location of counterparty:

	Note	30 June 2019	31 December 2018
In mainland China			
– Government		60,066	32,527
– Banks and other financial institutions	(1)	49,700	46,569
– Other institutions	(2)	66,013	54,903
Outside mainland China			
– Government		97	–
– Banks and other financial institutions		2,582	1,709
– Other institutions		20,521	14,942
Subtotal		198,979	150,650
Accrued interest		3,368	3,337
Total	(3)(4)	202,347	153,987
Listed	(5)	43,847	27,077
Of which listed in Hong Kong		25,693	19,855
Unlisted		155,132	123,573
Subtotal		198,979	150,650
Accrued interest		3,368	3,337
Total		202,347	153,987

Note:

- (1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in mainland China.
- (2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (3) As at 30 June 2019, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximates to RMB516 million (31 December 2018: RMB384 million).
- (4) At the end of the reporting period, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposit pledge, see Note III 23(a).
- (5) Listed includes debt instruments traded on the stock exchange markets.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019
(Expressed in millions of Renminbi, unless otherwise stated)

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

16 Financial investments (continued)

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

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

	For the six months ended 30 June 2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(384)	–	–	(384)
Net charge for the period	(187)	–	–	(187)
Release for the period	54	–	–	54
Others	1	–	–	1
As at 30 June 2019	(516)	–	–	(516)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(325)	–	–	(325)
Net charge for the year	(75)	–	–	(75)
Release for the year	17	–	–	17
Others	(1)	–	–	(1)
As at 31 December 2018	(384)	–	–	(384)

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

	Note	30 June 2019	31 December 2018
Equity instruments at fair value through other comprehensive income	(i)	373	367
Listed	(ii)	20	15
Of which listed in Hong Kong		–	–
Unlisted		353	352
Total		373	367

Note:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 30 June 2019, the fair value was RMB373 million (31 December 2018: RMB367 million). For the six months ended 30 June 2019, the Group received approximately RMB11 million dividend from the above equity instruments (for the six months ended 30 June 2018: RMB8 million).

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

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

16 Financial investments (continued)

(d) Financial investments measured at amortised cost

	Note	30 June 2019	31 December 2018
Debt securities	(i)	589,972	497,775
Others	(ii)	348,476	410,350
Subtotal		938,448	908,125
Accrued interest		19,498	20,558
Total		957,946	928,683
Less: Provision for impairment losses		(4,652)	(4,694)
Net balance		953,294	923,989
Listed	(iii)	147,535	79,879
Of which listed in Hong Kong		19,299	10,193
Unlisted		786,261	823,552
Subtotal		933,796	903,431
Accrued interest		19,498	20,558
Net balance		953,294	923,989

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

	Note	30 June 2019	31 December 2018
In mainland China			
– Government		287,537	259,640
– Banks and other financial institutions	(1)	134,453	174,930
– Other institutions	(2)	146,268	51,150
Outside mainland China			
– Government		1,311	1,088
– Banks and other financial institutions		7,369	3,789
– Other institutions		13,034	7,178
Subtotal		589,972	497,775
Accrued interest		9,222	9,175
Total	(3)	599,194	506,950
Less: Provision for impairment losses		(1,758)	(1,599)
Net balance		597,436	505,351
Fair Value		602,770	512,668

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

16 Financial investments (continued)

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

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

Note:

- (1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in mainland China.
- (2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.
- (3) As at the end of the reporting period, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposit and derivative transactions, see Note III 23(a).

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

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

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

	For the six months ended 30 June 2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Net charge for the period	(413)	–	(21)	(434)
Release for the period	379	–	101	480
Others	(4)	–	–	(4)
As at 30 June 2019	(3,569)	–	(1,083)	(4,652)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(3,288)	–	(916)	(4,204)
Net charge for the year	(435)	–	(247)	(682)
Release for the year	197	–	–	197
Others	(5)	–	–	(5)
As at 31 December 2018	(3,531)	–	(1,163)	(4,694)

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

17 Investments in subsidiaries

	Note	30 June 2019	31 December 2018
Everbright Financial Leasing Co., Ltd.	(a)	4,680	4,680
CEB International Investment Co., Ltd.	(b)	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd	(c)	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	(d)	70	70
China Everbright Bank Company Limited (Europe)	(e)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	(f)	105	105
Total		7,383	7,383

Note:

- (a) *Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on 19 May 2010 in Wuhan city of Hubei Province, with registered capital of RMB800 million. The Bank holds 90% of equity interests and voting rights of Everbright Financial Leasing. In October 2014, all shareholders of Everbright Financial Leasing increased their capital by RMB2.20 billion to Everbright Financial Leasing in proportion to their original shares. Among them, the bank contributed RMB1.98 billion. At the same time, Everbright Financial Leasing will increase registered capital by RMB700 billion of undistributed profits. After the capital increase, the registered capital of Everbright Financial Leasing is RMB3.70 billion. In July and November 2018, all shareholders of Everbright Financial Leasing increased their capital twice by RMB1.10 billion to Everbright Financial Leasing in proportion to their original shares. Among them, the bank contributed RMB1.98 billion. After the capital increase, the registered capital of Everbright Financial Leasing is RMB5.90 billion.*
- (b) *CEB International Investment Co., Ltd. ("CEBI") was incorporated on 9 November 2015 in Hong Kong, with registered capital of HKD600 million, which equals to RMB494 million approximately, according to the spot exchange rate 0.823655, on the day of transferring the registration capital. The principal activity of CEBI is the provision of investment banking business activities. On 25 April 2017, the Bank increased the capital of CEBI by HKD1.00 billion, which equals to RMB885 million approximately, according to the spot exchange rate 0.884857, on the day of transferring the registration capital. After the capital increase, the registered capital of CEBI is HKD1,600 million, equivalent to approximately RMB1,379 million. On 12 November 2018, the bank increased the capital of CEBI by HKD1.00 billion, which equals to RMB888 million approximately, according to the spot exchange rate 0.8879, on the day of transferring the registration capital. After the capital increase, the registered capital of CEBI is HKD2.60 billion, which is about RMB2.267 billion. The bank holds 100% of equity interests and voting rights of CEBI.*
- (c) *Shaoshan Everbright Rural Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on 24 September 2009 in Shaoshan city of Hunan Province, with registered capital of RMB150 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Shaoshan Everbright.*
- (d) *Jiangsu Huai'an Everbright Rural Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Huai'an Everbright.*
- (e) *China Everbright Bank Company Limited (Europe) ("China Everbright S A.") was approved by the European Central Bank and was incorporated on July 2017 in Luxembourg, with registered capital of EUR 20 million, equivalent to RMB156 million at the spot exchange rate of 7.78096 on the date of transferring of registered capital. The principal activities of China Everbright S A is the provision of corporate banking services. The Bank holds 100% of equity interests and voting rights of China Everbright S A.*
- (f) *Jiangxi Ruijin Everbright Rural Bank Co., Ltd. ("Ruijin Everbright") was incorporated on November 2018 in Ruijin city of Jiangxi Province, with registered capital of RMB150 million. The principal activities of Ruijin Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Ruijin Everbright.*

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

18 Fixed assets

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	79	–	483	133	135	830
Transfers in/(out)	1,120	–	(1,120)	–	–	–
Disposals	–	–	–	(68)	(46)	(114)
Foreign currency conversion difference	–	10	–	–	–	10
As at 30 June 2019	12,936	5,735	1,463	6,260	4,261	30,655
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the period	(198)	(98)	–	(246)	(196)	(738)
Disposals	–	–	–	62	42	104
Foreign currency conversion difference	–	(1)	–	–	–	(1)
As at 30 June 2019	(3,901)	(339)	–	(4,973)	(2,951)	(12,164)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 30 June 2019	(159)	–	–	–	–	(159)
Net book value						
As at 30 June 2019	8,876	5,396	1,463	1,287	1,310	18,332

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2018	11,404	2,752	1,606	6,060	3,753	25,575
Additions	247	3,129	622	468	496	4,962
Transfers in/(out)	128	–	(128)	–	–	–
Disposals	(42)	(322)	–	(334)	(80)	(778)
Foreign currency conversion difference	–	166	–	1	3	170
As at 31 December 2018	11,737	5,725	2,100	6,195	4,172	29,929
Accumulated depreciation						
As at 1 January 2018	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Charge for the year	(360)	(130)	–	(593)	(336)	(1,419)
Disposals	1	1	–	317	68	387
Foreign currency conversion difference	–	(8)	–	–	(2)	(10)
As at 31 December 2018	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Provision for impairment						
As at 1 January 2018	(159)	–	–	–	–	(159)
As at 31 December 2018	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2018	7,875	5,485	2,100	1,406	1,375	18,241

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

18 Fixed assets (continued)

Note:

- (i) As at 30 June 2019, title deeds were not yet finalised for the premises with a carrying amount of RMB137 million (31 December 2018: RMB141 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.
- (ii) As at 30 June 2019, Everbright Financial Leasing, the group's subsidiary leases certain aircrafts and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB5,396 million (31 December 2018: RMB5,485 million).

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

	30 June 2019	31 December 2018
Held in mainland China		
– Medium term leases (10 – 50 years)	8,653	7,795
– Short term leases (less than 10 years)	223	80
Total	8,876	7,875

19 Right-of-use Assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	534	1	535
Other changes	(3)	–	(3)
As at 30 June 2019	12,299	62	12,361
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the period	(1,150)	(8)	(1,158)
As at 30 June 2019	(1,150)	(8)	(1,158)
Net book value			
As at 30 June 2019	11,149	54	11,203

20 Goodwill

	30 June 2019	31 December 2018
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

20 Goodwill (continued)

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

21 Deferred tax assets and liabilities

(a) Analysed by nature

	30 June 2019		31 December 2018	
	Temporary difference	Deferred tax assets/(liabilities)	Temporary difference	Deferred tax assets/(liabilities)
Deferred income tax assets	62,060	15,515	43,175	10,794
Deferred income tax liabilities	–	–	–	–
Total	62,060	15,515	43,175	10,794

(b) Movements of deferred tax

	Provision for impairment losses Note (i)	Fair value changes of financial instruments Note (ii)	Accrued staff costs and others	Net balance of deferred tax assets/(liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Measured through profit or loss	3,604	342	959	4,905
Measured through other comprehensive income	(61)	(123)	–	(184)
30 June 2019	13,267	(455)	2,703	15,515

	Provision for impairment losses (Note (i))	Fair value changes of financial instruments (Note (ii))	Accrued staff costs and others	Net balance of deferred tax assets/(liabilities)
31 December 2017	4,918	1,131	1,547	7,596
Impact of adopting new standards	2,446	(98)	–	2,348
1 January 2018	7,364	1,033	1,547	9,944
Measured through profit or loss	2,284	(673)	197	1,808
Measured through other comprehensive income	76	(1,034)	–	(958)
31 December 2018	9,724	(674)	1,744	10,794

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

21 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax (continued)

Note:

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

22 Other assets

	Note	30 June 2019	31 December 2018
Other receivables	(a)	48,680	13,106
Fixed assets purchase prepayment		1,123	509
Long-term deferred expense		832	1,103
Intangible assets		1,178	1,171
Repossessed assets		446	458
Land use rights		91	94
Accrued interest		411	293
Others		3,714	3,713
Total		56,475	20,447

Note:

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

23 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities include discounted bills, debt securities and finance lease receivables. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 30 June 2019 is RMB62,139 million (31 December 2018: RMB95,841 million).

(b) Collaterals received

The Group accepted securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in six months ended 30 June 2019. As at 30 June 2019, the Group's collateral received from banks and other financial institutions has expired (31 December 2018: Nil). As at 30 June 2019, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2018: Nil). These transactions are conducted under standard terms in the normal course of business.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**24 Due to the central bank**

	30 June 2019	31 December 2018
Due to central banks	238,050	263,050
Accrued interest	4,106	4,143
Total	242,156	267,193

25 Deposits from banks and other financial institutions**Analysed by type and location of counterparty**

	30 June 2019	31 December 2018
Deposits in mainland China		
– Banks	169,488	168,466
– Other financial institutions	216,496	316,855
Deposits outside mainland China		
– Banks	489	1,831
Subtotal	386,473	487,152
Accrued interest	4,650	2,939
Total	391,123	490,091

26 Placements from banks and other financial institutions**Analysed by type and location of counterparty**

	30 June 2019	31 December 2018
Placements in mainland China		
– Banks	92,034	75,109
– Other financial institutions	5,904	7,156
Placements outside mainland China		
– Banks	65,365	69,024
Subtotal	163,303	151,289
Accrued interest	1,011	748
Total	164,314	152,037

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

27 Financial liabilities at fair value through profit or loss

	30 June 2019	31 December 2018
Short position in debt securities	7	354
Total	7	354

28 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	30 June 2019	31 December 2018
In mainland China		
– Banks	17,822	40,347
Outside mainland China		
– Banks	300	–
– Other financial institutions	491	46
Subtotal	18,613	40,393
Accrued interest	5	18
Total	18,618	40,411

(b) Analysed by collateral

	30 June 2019	31 December 2018
Bank acceptances	12,242	7,336
Debt securities	6,371	33,057
Subtotal	18,613	40,393
Accrued interest	5	18
Total	18,618	40,411

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

29 Deposits from customers

	30 June 2019	31 December 2018
Demand deposits		
– Corporate customers	817,917	732,628
– Individual customers	217,891	191,592
Subtotal	1,035,808	924,220
Time deposits		
– Corporate customers	1,193,085	990,038
– Individual customers	394,295	320,312
Subtotal	1,587,380	1,310,350
Pledged deposits	217,474	220,284
Other deposits	81,937	83,854
Subtotal deposits from customers	2,922,599	2,538,708
Accrued interest	36,263	33,253
Total	2,958,862	2,571,961

30 Accrued staff costs

	Note	30 June 2019	31 December 2018
Salary and welfare payable		7,077	6,904
Pension payable	(a)	337	281
Supplementary retirement benefits payable	(b)	843	843
Total		8,257	8,028

Note:

(a) Pension scheme

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

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

(b) Supplementary retirement benefits ("SRB")

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

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

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

31 Taxes payable

	30 June 2019	31 December 2018
Income tax payable	5,406	3,076
Value added tax payable	2,520	2,169
Others	579	421
Total	8,505	5,666

32 Debt securities issued

	Note	30 June 2019	31 December 2018
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	55,767	54,940
Tier-two capital bonds issued	(c)	39,982	56,170
Convertible bonds issued	(d)	27,094	26,618
Interbank deposits issued	(e)	267,141	265,894
Certificates of deposits issued	(f)	21,755	9,711
Medium term notes	(g)	20,163	16,747
Subtotal		438,602	436,780
Accrued interest		2,533	3,669
Total		441,135	440,449

(a) Subordinated debts issued

	Note	30 June 2019	31 December 2018
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Note:

- (i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.
- (ii) As at 30 June 2019, the fair value of the total subordinated debt issued approximates to RMB6,976 million (31 December 2018: RMB6,960 million).

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019
(Expressed in millions of Renminbi, unless otherwise stated)

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

32 Debt securities issued (continued)

(b) Financial bonds issued

	Note	30 June 2019	31 December 2018
Financial fixed rate bonds maturing in February 2020	(i)	27,991	27,976
Financial fixed rate bonds maturing in July 2020	(ii)	21,989	21,978
Financial fixed rate bonds maturing in November 2021	(iii)	4,989	4,986
Financial fixed rate bonds maturing in January 2022	(iv)	798	–
Total		55,767	54,940

Note:

- (i) Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.
- (ii) Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.
- (iii) Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.
- (iv) Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.
- (v) As at 30 June 2019, the fair value of the total financial bonds issued approximates to RMB56,253 million (31 December 2018: RMB55,369 million).

(c) Tier-two capital bonds issued

	Note	30 June 2019	31 December 2018
Tier-two capital fixed rate bonds maturing in June 2024	(i)	–	16,200
Tier-two capital fixed rate bonds maturing in March 2027	(ii)	27,988	27,980
Tier-two capital fixed rate bonds maturing in August 2027	(iii)	11,994	11,990
Total		39,982	56,170

Note:

- (i) Fixed rate tier-two capital bonds of RMB16.20 billion with a term of ten years were issued on 9 June 2014. The coupon rate is 6.20% per annum. The Group has an option to redeem the debts on 10 June 2019 at the nominal amount. The Group has redeemed the bond on 10 June 2019.
- (ii) Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.
- (iii) Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.
- (iv) As at 30 June 2019, the fair value of the total tier-two capital bonds issued approximates to RMB40,325 million (31 December 2018: RMB56,669 million).

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

32 Debt securities issued (continued)

(d) Convertible bonds issued

	30 June 2019	31 December 2018
Fixed rate six years convertible bonds issued in March 2017	27,094	26,618

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

	Liability component	Equity component Note III 35	Total
Nominal value of convertible bonds	24,826	5,174	30,000
Direct transaction costs	(64)	(13)	(77)
Balance as at the issuance date	24,762	5,161	29,923
Accumulated amortisation as at 1 January 2019	1,857	–	1,857
Accumulated conversion amount as at 1 January 2019	(1)	–	(1)
Balance as at 1 January 2019	26,618	5,161	31,779
Amortisation during the period	476	–	476
Conversion amount during the period	–	–	–
Balance as at 30 June 2019	27,094	5,161	32,255

Note:

- (i) Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of par value, including interest for the sixth year.
- (ii) During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.
- (iii) Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 30 June 2019, the new conversion price is RMB3.97 per share.
- (iv) As at 30 June 2019, a total of RMB877,000 (31 December 2018: RMB730,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 205,948 shares (31 December 2018: 170,354 shares).
- (v) For the six months ended 30 June 2019, a total of RMB150 million interests on the convertible bonds have been paid by the Bank (Six month ended 30 June 2018: RMB60 million).

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

32 Debt securities issued (continued)

(e) Interbank deposits issued

For the six months ended 30 June 2019, 38 inter-bank deposits were issued by the Bank and measured at amortized cost with carrying amount is RMB95,530 million (six months ended 30 June 2018: RMB355,050 million). The carrying amount of inter-bank deposits due in the six months ended 30 June 2019 was RMB95,960 million (six months ended 30 June 2018: RMB418,620 million). As at 30 June 2019, the fair value of its outstanding interbank deposits issued was RMB262,151 million (31 December 2018: RMB263,247 million).

(f) Certificates of deposits issued

As at 30 June 2019, the certificates of deposits were issued by the Bank's Hong Kong branch and Seoul branch and measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	30 June 2019	31 December 2018
Medium term notes with fixed rate maturing in 15 September 2019	(i)	3,421	3,423
Medium term notes with fixed rate maturing in 8 March 2020	(ii)	3,421	3,423
Medium term notes with floating rate maturing in 13 June 2020	(iii)	3,433	3,432
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,342	2,356
Medium term notes with floating rate maturing in 13 June 2021	(v)	2,060	2,059
Medium term notes with floating rate maturing in 19 September 2021	(vi)	2,053	2,054
Medium term notes with floating rate maturing in 19 June 2022	(vii)	3,433	–
Total		20,163	16,747

Note:

- (i) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.
- (ii) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.
- (iii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.
- (iv) Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.
- (v) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.
- (vi) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.
- (vii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.
- (viii) As at 30 June 2019, the fair value of the medium term notes approximates to RMB20,194 million (31 December 2018: RMB16,689 million).

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

33 Other liabilities

	Note	30 June 2019	31 December 2018
Deferred income	(a)	7,027	6,808
Bank loans	(b)	15,477	5,744
Deferred emoluments payment	(c)	5,377	5,078
Finance leases payable		4,537	3,750
Provisions	(d)	2,279	2,258
Payment and collection clearance accounts		846	908
Dormant accounts		303	310
Dividend payables		23	21
Others		23,045	19,443
Total		58,914	44,320

Note:

- (a) Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.
- (b) As at 30 June 2019, the Group's subsidiary Everbright Financial Leasing borrowed long-term loans with a terms from 3 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loan is RMB15,477 million (31 December 2018: RMB5,744 million).
- (c) As at 30 June 2019, the deferred emolument payment amounted to RMB5,377 million (31 December 2018: RMB5,078 million), which is related to deferred emoluments payment to employees in respect of services provided to the Group. Such amount will be distributed according to plans.
- (d) As at 30 June 2019, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB131 million (31 December 2018: RMB 147 million).

34 Share capital

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

	30 June 2019	31 December 2018
Ordinary shares listed in mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	52,489	52,489

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

35 Other equity instrument

	Note III	30 June 2019	31 December 2018
Preference shares (Note(a), (b), (c), (d))		29,947	29,947
Equity of convertible bonds	32(d)	5,161	5,161
Total		35,108	35,108

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

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

(b) Main Clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

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

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

(ii) Conditions to distribution of dividends

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

(iii) Dividend blocker

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

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

35 Other equity instrument (continued)

(b) Main Clauses (continued)

(iv) Order of distribution and liquidation method

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

(v) Mandatory conversion trigger events

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

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

(vi) Redemption

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

35 Other equity instrument (continued)

(c) Changes in preference shares outstanding

	1 January 2019		Additions for the period		30 June 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

	1 January 2018		Additions for the year		31 December 2018	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

(d) Interests attributable to equity instruments' holders

Items	30 June 2019	31 December 2018
Total equity attributable to equity shareholders of the Bank	333,061	321,488
– Equity attributable to ordinary shares holders of the Bank	303,114	291,541
– Equity attributable to preference shares holders of the Bank	29,947	29,947
Total equity attributable to non-controlling interests	1,024	985
– Equity attributable to non-controlling interests of ordinary shares	1,024	985
– Equity attributable to non-controlling interests of preference shares	–	–

36 Capital reserve

	30 June 2019	31 December 2018
Share premium	53,533	53,533

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

37 Other comprehensive income

	30 June 2019	31 December 2018
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	14	10
Remeasurement of defined benefit plan	(123)	(123)
Subtotal	(109)	(113)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	2,380	1,748
– Net change in fair value	1,539	1,094
– Net change in expected credit loss	841	654
Exchange differences on translation of financial statements	24	20
Subtotal	2,404	1,768
Total	2,295	1,655

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

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasure- ment of defined benefit plan	Total
As at 1 January 2018	(1,948)	887	8	(46)	(21)	(1,120)
Changes in amount for the previous year	3,042	(233)	2	66	(102)	2,775
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the period	445	187	4	4	–	640
As at 30 June 2019	1,539	841	14	24	(123)	2,295

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

38 Surplus reserve and general reserve

(a) Surplus reserve

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

(b) General reserve

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

39 Appropriation of profits

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

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

(b) At the Board Meeting held on 30 May 2019, the dividend distribution of the first preference shares was approved by the Board of Directors:

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

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

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

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

39 Appropriation of profits (continued)

- (d) At the Board Meeting held on 27 April 2018, the dividend distribution of the first preference shares was approved by the Board of Directors:
- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, start accruing from 25 June 2017, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.
- (e) At the Board Meeting held on 20 July 2018, the dividend distribution of the second preference shares was approved by the Board of Directors.
- Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, start accruing from 13 August 2017, and are calculated using the 3.90% of dividend yield ratio for China Everbright Bank the second phase preference shares.

40 Involvement with structured entities

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

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

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

	30 June 2019		31 December 2018	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	111,622	111,622	180,633	180,633
– Asset management plans	8,487	8,487	8,693	8,693
Financial investments measured at amortised cost				
– Asset management plans	355,858	355,858	418,639	418,639
– Asset-backed securities	85,800	85,800	31,509	31,509
Total	561,767	561,767	639,474	639,474

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

40 Involvement with structured entities (continued)

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

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2019, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at 30 June 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB704,506 million (31 December 2018: RMB689,002 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 30 June 2019 amounted to RMB0.00 million (Six months ended 30 June 2018: RMB642 million).

For the six months ended 30 June 2019, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB266 million (Six months ended 30 June 2018: RMB502 million).

For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. Such financing provided by the Group was included in "Placements with banks and other financial institutions". As at 30 June 2019, the balance of above trading was RMB15,698 million (31 December 2018: RMB15,230 million). The maximum exposure to loss of those placements approximated to the carrying amount. For the six months ended 30 June 2019, the amount of interest receivables provided by the above financing being recognized are not material for the Group in the statement of profit or loss.

In addition, as at 30 June 2019, the Group hold interests in the unconsolidated structured entities of asset securitization transactions, refer to Note III 41. During the six months ended 30 June 2019, the Group's income from these structured entities was immaterial.

(c) Consolidated structured entities

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

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

41 Transferred financial assets

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

Credit assets backed securitization

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

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB111 million as at 30 June 2019 (31 December 2018: RMB118 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB8,127 million as at 30 June 2019(31 December 2018: RMB8,127 million) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB56 million as at 30 June 2019(31 December 2018: RMB267 million).

Transfer of right to earnings

The Group enters into transfer of right to earnings of credit assets transactions in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors. As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 30 June 2019, loans with an original carrying amount of RMB3,065 million (31 December 2018: RMB3,776 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 30 June 2019, the carrying amount of assets that the Group continues to recognise amounts to RMB831 million (31 December 2018: RMB1,097 million).

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

42 Capital management

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

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

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

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

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

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

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

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

42 Capital management (continued)

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

	30 June 2019	31 December 2018
Total common equity tier-one capital	303,779	292,093
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	60,989	60,349
Surplus reserve	24,371	24,371
General reserve	54,037	54,036
Retained earnings	111,228	100,296
Qualifying portions of non-controlling interests	665	552
Common equity tier-one capital deductions	(2,461)	(2,455)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(1,178)	(1,171)
Net deferred tax assets arising from operating losses that depend on future profits	(2)	(3)
Net common equity tier-one capital	301,318	289,638
Additional tier-one capital	30,036	30,021
Additional tier-one capital instruments	29,947	29,947
Qualifying portions of non-controlling interests	89	74
Tier-one capital net	331,354	319,659
Tier-two capital	79,567	92,353
Qualifying portions of tier-two capital instruments issued and share premium	46,682	62,870
Excess loan loss provisions	32,708	29,336
Qualifying portions of non-controlling interests	177	147
Net capital base	410,921	412,012
Total risk-weighted assets	3,343,427	3,166,668
Common equity tier-one capital adequacy ratio	9.01%	9.15%
Tier-one capital adequacy ratio	9.91%	10.09%
Capital adequacy ratio	12.29%	13.01%

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019
(Expressed in millions of Renminbi, unless otherwise stated)

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

43 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	For the six months ended 30 June	
	2019	2018
Cash and cash equivalents as at 30 June	205,828	189,673
Less: Cash and cash equivalents as at 1 January	187,680	147,923
Net increase in cash and cash equivalents	18,148	41,750

(b) Cash and cash equivalents

	30 June 2019	30 June 2018
Cash on hand	5,171	5,070
Deposits with the central bank	106,461	97,218
Deposits with banks and other financial institutions	61,900	18,745
Placements with banks and other financial institutions	32,296	68,640
Total	205,828	189,673

44 Related party relationships and transactions

(a) The immediate and ultimate parent Companies

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

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note III 44(b)(ii).

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

44 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co., Ltd. (“Everbright Securities”)	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment and Assets Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright jin’ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Tianjin) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance Holding Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service (Group) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Cachet Pharmaceutical Company Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service Limited	Affiliate of China Everbright Group Ltd.
– Everbright Technology Co., Ltd.	Affiliate of China Everbright Group Ltd.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

44 Related party relationships and transactions (continued)

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

(i) Other related parties information (continued)

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

Related party	Relationship with the Group
Affiliated companies (continued)	
– Everbright Happiness International Commercial Factoring Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Sunshine Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Ningbo jin'ou Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Guokaitai Industrial Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Zhongqing Chuangyi Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shenzhen Qianhai Everbright Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
Other related parties	
– Overseas Chinese Town Holding Company	Shareholder, Common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co., Ltd.	Common key management
– Haitong Securities Co., Ltd.	Common key management
– China UnionPay Co., Ltd.	Common key management
– Orient Securities Co., Ltd.	Common key management
– Shanghai ICY New Energy Venture Capital Co., Ltd.	Common key management
– China Pacific Property Insurance Co., Ltd.	Common key management
– China Pacific Life Insurance Co., Ltd.	Common key management
– First-trust Fund Management Co., Ltd.	Common key management
– COSCO Shipping Development Co., Ltd.	Common key management
– China COSCO Shipping Co., Ltd.	Common key management
– Shenergy Group Co., Ltd.	Common key management
– Bohai Securities Co., Ltd.	Common key management
– Shanghai Gas (Group) Co., Ltd.	Common key management
– China Marine Bunker (PetroChina) Co., Ltd.	Common key management
– Shenzhen Guangming Group Co., Ltd.	Common key management
– Shenzhen Vphonor Information Technology Co., Ltd.	Common key management
– Shanghai Zhongbo Enterprise Management Development Co., Ltd.	Common key management
– Shanghai Insurance Exchange Co., Ltd.	Common key management

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

44 Related party relationships and transactions (continued)

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

(ii) Related party transactions

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

	China Everbright Group (Note III 44(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2019:				
Interest income	–	265	164	429
Interest expense	(88)	(164)	(230)	(482)
Balances with related parties as at 30 June 2019:				
Derivative financial assets	–	–	11	11
Financial assets held under resale agreements	–	477	1,230	1,707
Loans and advances to customers	–	6,422	8,900	15,322
Financial assets at fair value through profit or loss	–	9,375	332	9,707
Debt instruments at fair value through other comprehensive income	297	859	80	1,236
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	172,109	–	172,109
Other assets	–	4,806	509	5,315
Total	297	194,048	11,160	205,505
Deposits from banks and other financial institutions				
	–	1,929	1,356	3,285
Derivative financial liabilities	–	–	12	12
Deposits from customers	5,902	11,297	65,766	82,965
Total	5,902	13,226	67,134	86,262
Significant other sheet items with related parties as at 30 June 2019:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	28	–	28

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

44 Related party relationships and transactions (continued)

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

(ii) Related party transactions (continued)

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

	China Everbright Group (Note III 44(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2018:				
Interest income	–	177	101	278
Interest expense	(2)	(208)	(376)	(586)
Balances with related parties as at 31 December 2018:				
Placements with banks and other financial institutions				
	–	1,001	–	1,001
Derivative financial assets	–	–	5	5
Financial assets held under resale agreements	–	–	292	292
Loans and advances to customers	–	7,911	6,330	14,241
Financial assets at fair value through profit or loss	–	14,296	–	14,296
Debt instruments at fair value through other comprehensive income	301	1,209	171	1,681
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	194,750	138	194,888
Other assets	–	682	200	882
Total	301	219,849	7,234	227,384
Deposits from banks and other financial institutions				
	–	1,911	1,473	3,384
Derivative financial liabilities	–	–	4	4
Deposits from customers	6,402	14,665	20,051	41,118
Total	6,402	16,576	21,528	44,506
Significant other sheet items with related parties as at 31 December 2018:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	67	–	67

Note: As at 30 June 2019, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180million (31 December 2018: RMB180 million) due to one of the state-owned commercial banks.

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

44 Related party relationships and transactions (continued)

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

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

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

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

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

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

	For the six months ended 30 June	
	2019	2018
Interest income	616	665
Interest expense	(1,755)	(1,887)

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

	30 June 2019	31 December 2018
Deposits with banks and other financial institutions	37,486	12,983
Placements with banks and other financial institutions	7,254	17,941
Derivative financial assets	2,765	4,098
Financial assets held under resale agreements	528	5,201
Loans and advances to customers	1,411	2,388
Financial assets at fair value through profit or loss	28,003	28,663
Debt instruments at fair value through other comprehensive income	30,116	27,310
Financial investments measured at amortised cost	62,828	67,966
Other assets	701	609
Deposits from banks and other financial institutions	82,024	76,488
Placements from banks and other financial institutions	75,530	58,276
Derivative financial liabilities	2,512	3,948
Financial assets sold under repurchase agreements	4,581	4,455
Deposits from customers	13,623	19,952
Other liabilities	13	11

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

44 Related party relationships and transactions (continued)

(d) Transactions with other PRC state-owned entities

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

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

(e) Key management personnel

	For the six months ended 30 June	
	2019 RMB’000	2018 RMB’000
Remuneration	6,991	8,977
Retirement benefits	526	615
– Basic social pension insurance	302	362

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

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

	30 June 2019 RMB’000	31 December 2018 RMB’000
Aggregate amount of relevant loans outstanding as at the period/year end	8,948	9,041
Maximum aggregate amount of relevant loans outstanding during the period/year	8,970	9,247

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

45 Statement of financial position of the Bank

	Note III	30 June 2019	31 December 2018
Assets			
Cash and deposits with the central bank		378,189	366,418
Deposits with banks and other financial institutions		60,110	39,243
Precious metals		23,184	23,628
Placements with banks and other financial institutions		66,657	98,057
Derivative financial assets		10,825	15,112
Financial assets held under resale agreements		67,039	37,348
Loans and advances to customers		2,529,847	2,361,930
Financial investments		1,320,454	1,295,523
– Financial assets at fair value through profit or loss		168,810	221,059
– Debt instruments at fair value through other comprehensive income		198,114	150,244
– Equity instruments at fair value through other comprehensive income		367	362
– Financial investments measured at amortised cost		953,163	923,858
Investments in subsidiaries	17	7,383	7,383
Fixed assets		12,896	12,721
Right-of-use assets		11,105	–
Goodwill		1,281	1,281
Deferred tax assets		14,955	10,194
Other assets		54,563	18,617
Total assets		4,558,488	4,287,455

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**45 Statement of financial position of the Bank (continued)**

	30 June 2019	31 December 2018
Liabilities and equity		
Liabilities		
Due to the central bank	242,106	267,143
Deposits from banks and other financial institutions	392,055	492,275
Placements from banks and other financial institutions	109,621	102,908
Derivative financial liabilities	10,541	14,291
Financial assets sold under repurchase agreements	17,823	40,364
Deposits from customers	2,958,074	2,570,877
Accrued staff costs	8,125	7,880
Taxes payable	8,276	5,260
Lease liabilities	10,372	–
Debts securities issued	435,206	435,435
Other liabilities	36,420	32,172
Total liabilities	4,228,619	3,968,605
Equity		
Share capital	52,489	52,489
Other equity instrument	35,108	35,108
of which: preference shares	29,947	29,947
Capital reserve	53,533	53,533
Other comprehensive income	2,227	1,791
Surplus reserve	24,371	24,371
General reserve	53,143	53,143
Retained earnings	108,998	98,415
Total equity	329,869	318,850
Total liabilities and equity	4,558,488	4,287,455

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

46 Segment reporting

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

Corporate banking

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

Retail banking

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

Financial market business

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

Others

These represent equity investments and related income.

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

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

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

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

46 Segment reporting (continued)

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

	For the six months ended 30 June 2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	10,463	21,904	2,117	–	34,484
Internal net interest income/(expense)	8,099	(7,077)	(1,022)	–	–
Net interest income	18,562	14,827	1,095	–	34,484
Net fee and commission income	3,277	6,728	473	–	10,478
Net trading gains	–	–	685	–	685
Dividend income	–	–	–	8	8
Net (losses)/gains arising from investment securities	(62)	1	6,338	–	6,277
Foreign exchange gains/(losses)	147	42	(99)	–	90
Other net operating income	205	15	9	52	281
Operating income	22,129	21,613	8,501	60	52,303
Operating expenses	(7,053)	(7,976)	(1,029)	(17)	(16,075)
Operating profit before impairment	15,076	13,637	7,472	43	36,228
Impairment losses on assets	(10,974)	(3,515)	(79)	–	(14,568)
Profit before tax	4,102	10,122	7,393	43	21,660
Other segment information					
– Depreciation and amortisation	(507)	(482)	(70)	–	(1,059)
– Capital expenditure	490	543	67	–	1,100
	31 December 2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,705,352	1,174,769	1,464,480	656	4,345,257
Segment liabilities	2,067,338	662,614	1,300,411	4,475	4,034,838

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

46 Segment reporting (continued)

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

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

	Note III	30 June 2019	31 December 2018
Segment assets		4,630,224	4,345,257
Goodwill	20	1,281	1,281
Deferred tax assets	21	15,515	10,794
Total assets		4,647,020	4,357,332
Segment liabilities		4,312,912	4,034,838
Dividend payables	33	23	21
Total liabilities		4,312,935	4,034,859

(b) Geographical information

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

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

- “Yangtze River Delta” refers to the following areas serviced by subsidiary and branches of the Bank, Huai'an Everbright: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;
- “Pearl River Delta” refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;
- “Bohai Rim” refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;
- “Central” refers to the following areas serviced by subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright and Ruijin Everbright: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;
- “Western” refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;
- “Northeastern” refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;
- “Overseas” refers to the following areas serviced by branches of the Bank: Hong Kong, Seoul, Luxembourg, Sydney; and
- “Head Office” refers to the headquarter of the Group.

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

46 Segment reporting (continued)

(b) Geographical information (continued)

	Operating Income									Total
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas		
For the six months ended 30 June 2019	11,957	9,866	14,117	10,596	8,578	7,105	2,937	1,068	66,224	
For the six months ended 30 June 2018	7,405	6,656	22,108	5,388	4,612	3,784	1,620	730	52,303	

	Non-current Asset (Note (i))									Total
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Overseas		
30 June 2019	3,760	3,239	7,321	8,301	3,263	2,970	1,613	337	30,804	
31 December 2018	2,526	839	6,187	6,531	1,190	1,212	904	117	19,506	

Note:

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

47 Risk management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. The senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. The senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And the senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

- The Corporate Banking Department, Strategic Customer and Investment Banking Department, Inclusive Finance Department, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, they are the first line of defense of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.
- The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defense of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution".
- The Internal Audit Department is the third line of defense of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

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

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

47 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluating and approving in accordance with the principle of separation of duties for approval and lending as well as hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conform with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, a standardized review and approval policies and process in accordance with the principal of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collaterals and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury Business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk chance 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.

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

47 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

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

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

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

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

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

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

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Criteria for judging significant increases in credit risk

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

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

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

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

Backstop criteria

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

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

47 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Definition of credit-impaired financial asset

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

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

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Parameters of ECL measurement

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

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.
- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

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

47 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)

Forward-looking information

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

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

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

Modification of contractual cash flows

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

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. As at 30 June 2019, the carrying amount of financial assets with such modified contractual cash flows was not significant.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note III 50(a).

	30 June 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	378,356	–	–	–	378,356
Deposits with banks and other financial institutions	63,904	–	–	–	63,904
Placements with banks and other financial institutions	67,307	–	–	–	67,307
Financial assets held under resale agreements	67,039	–	–	–	67,039
Loans and advances to customers	2,402,005	112,666	15,906	–	2,530,577
Finance lease receivables	74,278	2,845	280	–	77,403
Financial investments	1,155,177	–	464	169,944	1,325,585
Others (Note)	51,862	–	–	12,394	64,256
Total	4,259,928	115,511	16,650	182,338	4,574,427

	31 December 2018				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	366,575	–	–	–	366,575
Deposits with banks and other financial institutions	41,005	–	–	–	41,005
Placements with banks and other financial institutions	96,685	–	–	–	96,685
Financial assets held under resale agreements	37,773	–	–	–	37,773
Loans and advances to customers	2,227,372	117,867	16,039	–	2,361,278
Finance lease receivables	60,890	1,979	464	–	63,333
Financial investments	1,077,619	–	357	223,104	1,301,080
Others (Note)	16,718	–	–	15,238	31,956
Total	3,924,637	119,846	16,860	238,342	4,299,685

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

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

47 Risk management (continued)

(a) Credit risk (continued)

(ii) *Financial assets analysed by credit quality are summarised as follows:*

	30 June 2019					
	Loans and advances to customers	Finance lease receivables	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments	Others (Note)
<i>Impaired</i>						
Gross amount	40,841	1,035	366	–	1,547	2,576
Provision for impairment losses	(24,935)	(755)	(366)	–	(1,083)	(237)
Subtotal	15,906	280	–	–	464	2,339
<i>Overdue but not impaired</i>						
– Less than 3 months (inclusive)	28,589	291	–	–	–	–
– Between 3 months and 6 months (inclusive)	–	3	–	–	–	–
– Over 6 months	324	3	–	–	–	–
Gross amount	28,913	297	–	–	–	–
Provision for impairment losses	(5,642)	(4)	–	–	–	–
Subtotal	23,271	293	–	–	–	–
<i>Neither overdue nor impaired</i>						
Gross amount	2,532,727	78,039	131,457	67,040	1,328,690	62,317
Provision for impairment losses	(41,327)	(1,209)	(246)	(1)	(3,569)	(400)
Subtotal	2,491,400	76,830	131,211	67,039	1,325,121	61,917
Total	2,530,577	77,403	131,211	67,039	1,325,585	64,256

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2018					
	Loans and advances to customers	Finance lease receivables	Deposits/placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments	Others (Note)
<i>Impaired</i>						
Gross amount	38,649	1,076	366	–	1,520	1,785
Provision for impairment losses	(22,610)	(612)	(366)	–	(1,163)	(228)
Subtotal	16,039	464	–	–	357	1,557
<i>Overdue but not impaired</i>						
– Less than 3 months (inclusive)	23,893	1,143	–	–	–	–
– Between 3 months and 6 months (inclusive)	243	2	–	–	–	–
Gross amount	24,136	1,145	–	–	–	–
Provision for impairment losses	(3,778)	(64)	–	–	–	–
Subtotal	20,358	1,081	–	–	–	–
<i>Neither overdue nor impaired</i>						
Gross amount	2,365,702	62,736	137,966	37,775	1,304,254	30,803
Provision for impairment losses	(40,821)	(948)	(276)	(2)	(3,531)	(404)
Subtotal	2,324,881	61,788	137,690	37,773	1,300,723	30,399
Total	2,361,278	63,333	137,690	37,773	1,301,080	31,956

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

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

47 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	30 June 2019	31 December 2018
<i>Impaired</i>		
Carrying amount	366	366
Provision for impairment losses	(366)	(366)
Subtotal	–	–
<i>Neither overdue nor impaired</i>		
– grade A to AAA	195,113	171,905
– grade B to BBB	2,196	3,312
– unrated (Note)	941	246
Subtotal	198,250	175,463
Total	198,250	175,463

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019
(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	30 June 2019	31 December 2018
<i>Impaired</i>		
Carrying amount	1,507	1,520
Provision for impairment losses	(1,062)	(1,163)
Subtotal	445	357
<i>Neither overdue nor impaired</i>		
<i>Bloomberg Composite</i>		
– grade AAA	276	–
– grade AA- to AA+	634	–
– grade A- to A+	14,651	8,935
– grade lower than A-	13,164	8,396
Subtotal	28,725	17,331
<i>Other agency ratings</i>		
– grade AAA	649,424	520,033
– grade AA- to AA+	74,398	32,986
– grade A- to A+	8,930	7,872
– grade lower than A-	15,634	11,725
– unrated	62,720	83,182
Subtotal	811,106	655,798
Total	840,276	673,486

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The Board of Directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured monitored and control all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the Board of Directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

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

47 Risk management (continued)

(b) Market risk (continued)

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Assets and Liability Management Department of the Group is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

- (i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	30 June 2019						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.45%	378,356	15,542	362,814	–	–	–
Deposits with banks and other financial institutions	1.98%	63,904	29	63,875	–	–	–
Placements with banks and other financial institutions	3.05%	67,307	249	43,177	23,881	–	–
Financial assets held under resale agreements	2.48%	67,039	65	66,974	–	–	–
Loans and advances to customers	5.68%	2,530,577	35,345	1,379,274	1,021,720	89,451	4,787
Finance lease receivables	5.40%	77,403	1,245	51,591	23,490	1,077	–
Financial investments	4.36%	1,325,585	36,624	202,671	195,890	646,596	243,804
Others	–	136,849	133,477	–	–	–	3,372
Total assets	4.77%	4,647,020	222,576	2,170,376	1,264,981	737,124	251,963
Liabilities							
Due to the central bank	3.34%	242,156	4,106	88,040	150,010	–	–
Deposits from banks and other financial institutions	3.04%	391,123	4,650	288,722	97,751	–	–
Placements from banks and other financial institutions	3.19%	164,314	1,017	95,956	67,341	–	–
Financial assets sold under repurchase agreements	2.13%	18,618	5	14,986	3,627	–	–
Deposits from customers	2.27%	2,958,862	39,991	2,384,347	336,233	198,108	183
Debt securities issued	3.82%	441,135	2,533	110,814	224,185	56,921	46,682
Others	–	96,727	67,626	8,574	11,659	6,783	2,085
Total liabilities	2.62%	4,312,935	119,928	2,991,439	890,806	261,812	48,950
Asset-liability gap	2.15%	334,085	102,648	(821,063)	374,175	475,312	203,013

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

47 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

- (i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier (continued) :

	31 December 2018						
	Effective interest rate (*) (Restated)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	366,575	14,111	352,464	-	-	-
Deposits with banks and other financial institutions	1.79%	41,005	76	40,929	-	-	-
Placements with banks and Other financial institutions	3.86%	96,685	530	69,506	25,663	986	-
Financial assets held under resale agreements	3.21%	37,773	34	37,515	68	156	-
Loans and advances to customers	5.45%	2,361,278	29,287	1,822,602	435,372	70,817	3,200
Finance lease receivables	5.37%	63,333	1,801	60,331	490	711	-
Financial investments	4.42%	1,301,080	39,210	280,950	224,484	541,874	214,562
Others	-	89,603	85,956	-	-	-	3,647
Total assets	4.69%	4,357,332	171,005	2,664,297	686,077	614,544	221,409
Liabilities							
Due to the central bank	3.29%	267,193	4,143	34,500	228,550	-	-
Deposits from banks and other financial institutions	3.84%	490,091	2,704	257,323	230,064	-	-
Placements from banks and other financial institutions	3.32%	152,037	754	103,060	48,085	138	-
Financial assets sold under repurchase agreements	2.54%	40,411	18	37,330	3,063	-	-
Deposits from customers	2.15%	2,571,961	35,659	2,067,304	364,245	104,753	-
Debt securities issued	4.31%	440,449	3,669	58,022	221,007	94,881	62,870
Others	-	72,717	59,823	8,612	3,631	651	-
Total liabilities	2.78%	4,034,859	106,770	2,566,151	1,098,645	200,423	62,870
Asset-liability gap	1.91%	322,473	64,235	98,146	(412,568)	414,121	158,539

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) *Interest rate sensitivity analysis*

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 30 June 2019, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB5,893 million (31 December 2018: decrease by RMB1,222 million), and equity to decrease by RMB10,703 million (31 December 2018: decrease by RMB4,820 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB6,007 million (31 December 2018: increase by RMB1,267 million), and equity to increase by RMB11,088 million (31 December 2018: increase by RMB5,074 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;
- At the end of the reporting period, an interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

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

47 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

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

	30 June 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	369,555	8,349	452	378,356
Deposits with banks and other financial institutions	42,743	15,398	5,763	63,904
Placements with banks and other financial institutions	45,163	18,385	3,759	67,307
Financial assets held under resale agreements	67,039	–	–	67,039
Loans and advances to customers	2,383,120	96,913	50,544	2,530,577
Finance lease receivables	76,472	931	–	77,403
Financial investments	1,253,382	63,975	8,228	1,325,585
Others	124,189	10,775	1,885	136,849
Total assets	4,361,663	214,726	70,631	4,647,020
Liabilities				
Due to the central bank	242,156	–	–	242,156
Deposits from banks and other financial institutions	390,801	112	210	391,123
Placements from banks and other financial institutions	52,026	99,038	13,250	164,314
Financial assets sold under repurchase agreements	17,823	–	795	18,618
Deposit from customers	2,786,661	142,763	29,438	2,958,862
Debt securities issued	399,575	33,662	7,898	441,135
Others	86,409	8,190	2,128	96,727
Total liabilities	3,975,451	283,765	53,719	4,312,935
Net position	386,212	(69,039)	16,912	334,085
Off-balance sheet credit commitments	1,115,869	55,829	36,843	1,208,541
Derivative financial instruments (Note)	(43,216)	60,196	(16,199)	781

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

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

	31 December 2018			Total (RMB Equivalent)
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	
Assets				
Cash and deposits with the central bank	359,143	6,990	442	366,575
Deposits with banks and other financial institutions	14,614	18,094	8,297	41,005
Placements with banks and other financial institutions	58,436	31,783	6,466	96,685
Financial assets held under resale agreements	37,348	–	425	37,773
Loans and advances to customers	2,245,883	71,428	43,967	2,361,278
Finance lease receivables	62,291	1,042	–	63,333
Financial investments	1,247,713	43,016	10,351	1,301,080
Others	83,712	3,856	2,035	89,603
Total assets	4,109,140	176,209	71,983	4,357,332
Liabilities				
Due to the central bank	267,193	–	–	267,193
Deposits from banks and other financial institutions	489,301	145	645	490,091
Placements from banks and other financial institutions	50,288	80,231	21,518	152,037
Financial assets sold under repurchase agreements	40,364	–	47	40,411
Deposit from customers	2,408,136	134,718	29,107	2,571,961
Debt securities issued	416,623	18,437	5,389	440,449
Others	63,190	6,691	2,836	72,717
Total liabilities	3,735,095	240,222	59,542	4,034,859
Net position	374,045	(64,013)	12,441	322,473
Off-balance sheet credit commitments	932,340	52,390	26,861	1,011,591
Derivative financial instruments (Note)	(33,881)	46,775	(10,192)	2,702

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

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

47 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	30 June 2019	31 December 2018
Exchange rates against RMB for the HK dollars	0.8789	0.8763
Exchange rates against RMB for the US dollars	6.8668	6.8633

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 30 June 2019, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB9 million (31 December 2018: decrease by RMB16 million); a depreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB9 million (31 December 2018: increase by RMB16 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates (central parity) against RMB;
- At the end of reporting period, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;
- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(b) Market risk (continued)

Price risk

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

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of various business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and
- Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and longterm working capital on a regular basis, and for formulating liquidity management strategies. The Assets and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plan to respond to various possible liquidity risks.

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

47 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2019							Total
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	266,596	111,760	-	-	-	-	-	378,356
Deposit with banks and other financial institutions	-	54,120	9,750	34	-	-	-	63,904
Placements with banks and other financial institutions	-	-	37,566	5,805	23,936	-	-	67,307
Financial asset held under resale agreements	-	-	67,039	-	-	-	-	67,039
Loans and advances to customers	36,530	403,966	101,444	134,963	601,668	596,956	655,050	2,530,577
Finance lease receivables	46	36	1,473	3,803	12,209	45,459	14,377	77,403
Financial investments	2,106	112,045	43,308	38,747	208,767	669,908	250,704	1,325,585
Others	71,651	50,968	1,584	1,031	4,515	3,724	3,376	136,849
Total assets	376,929	732,895	262,164	184,383	851,095	1,316,047	923,507	4,647,020
Liabilities								
Due to the central bank	-	-	42,327	48,359	151,470	-	-	242,156
Deposits from banks and other financial institutions	-	177,370	42,081	72,223	99,449	-	-	391,123
Placements from banks and other financial institutions	-	6	47,783	47,263	68,659	603	-	164,314
Financial assets sold under repurchase agreements	-	-	8,860	6,131	3,627	-	-	18,618
Deposit from customers	-	1,105,758	458,320	331,126	699,512	363,858	288	2,958,862
Debt securities issued	-	-	46,667	64,210	216,857	65,755	47,646	441,135
Others	-	47,079	7,482	2,069	8,272	26,920	4,905	96,727
Total liabilities	-	1,330,213	653,520	571,381	1,247,846	457,136	52,839	4,312,935
Net position	376,929	(597,318)	(391,356)	(386,998)	(396,751)	858,911	870,668	334,085
Notional amount of derivative financial instruments	-	-	494,840	580,720	1,124,011	780,660	4,780	2,985,011

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period (continued):

	31 December 2018							Total
	Overdue/ Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with the central bank	258,034	108,541	-	-	-	-	-	366,575
Deposit with banks and other financial institutions	-	33,789	6,177	1,039	-	-	-	41,005
Placements with banks and other financial institutions	-	-	45,345	24,436	25,918	986	-	96,685
Financial asset held under resale agreements	-	-	37,549	-	68	156	-	37,773
Loans and advances to customers	32,418	378,666	86,818	153,203	560,558	497,661	651,954	2,361,278
Finance lease receivables	184	121	1,324	3,046	11,135	35,875	11,648	63,333
Financial investments	2,453	180,633	49,292	43,254	243,026	561,212	221,210	1,301,080
Others	57,255	13,780	1,316	3,556	6,692	3,644	3,360	89,603
Total assets	350,344	715,530	227,821	228,534	847,397	1,099,534	888,172	4,357,332
Liabilities								
Due to the central bank	-	-	12,896	22,613	231,684	-	-	267,193
Deposits from banks and other financial institutions	-	140,751	89,005	28,207	232,128	-	-	490,091
Placements from banks and other financial institutions	-	6	58,966	44,503	48,425	137	-	152,037
Financial assets sold under repurchase agreements	-	-	35,206	2,142	3,063	-	-	40,411
Deposit from customers	-	1,163,169	246,800	321,019	565,913	275,060	-	2,571,961
Debt securities issued	-	-	21,153	36,869	221,007	94,881	66,539	440,449
Others	-	40,232	7,326	3,303	8,556	10,878	2,422	72,717
Total liabilities	-	1,344,158	471,352	458,656	1,310,776	380,956	68,961	4,034,859
Net position	350,344	(628,628)	(243,531)	(230,122)	(463,379)	718,578	819,211	322,473
Notional amount of derivative financial instruments	-	-	501,608	608,087	1,636,249	592,720	160	3,338,824

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

47 Risk management (continued)

(c) Liquidity risk (continued)

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

	30 June 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	242,156	246,022	–	42,379	48,613	155,030	–	–
Deposits from banks and other financial institutions	391,123	393,262	177,379	42,296	72,776	100,811	–	–
Placements from banks and other financial institutions	164,314	166,507	6	47,915	47,726	70,211	649	–
Financial assets sold under repurchase agreements	18,618	19,132	–	9,323	6,154	3,655	–	–
Deposits from customers	2,958,862	2,994,818	1,105,758	462,133	336,139	708,324	382,175	289
Debt securities issued	441,135	522,769	–	52,878	74,891	260,081	80,643	54,276
Other financial liabilities	86,152	88,600	47,079	5,868	1,059	4,203	25,045	5,346
Total non-derivative financial liabilities	4,302,360	4,431,110	1,330,222	662,792	587,358	1,302,315	488,512	59,911
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(63)	–	(7)	–	(3)	(54)	1
Derivative financial instruments settled on gross basis								
– Cash inflow		1,367,032	–	418,296	274,454	658,822	15,460	
– Cash outflow		(1,368,633)	–	(418,259)	(276,458)	(658,461)	(15,455)	
Total derivative financial liabilities		(1,601)	–	37	(2,004)	361	5	

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(c) Liquidity risk (continued)

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

	31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	267,193	271,562	-	12,912	22,727	235,923	-	-
Deposits from banks and other financial institutions	490,091	494,874	140,753	89,153	28,425	236,543	-	-
Placements from banks and other financial institutions	152,037	154,101	6	59,036	44,991	49,910	158	-
Financial assets sold under repurchase agreements	40,411	40,456	-	35,218	2,150	3,088	-	-
Deposits from customers	2,571,961	2,608,140	1,165,410	251,751	327,937	573,689	289,353	-
Debt securities issued	440,449	528,781	-	21,394	42,667	277,120	114,881	72,719
Other financial liabilities	58,368	59,799	40,212	5,434	774	2,290	8,115	2,974
Total non-derivative financial liabilities	4,020,510	4,157,713	1,346,381	474,898	469,671	1,378,563	412,507	75,693
Derivative financial liabilities								
Derivative financial instruments settled on net basis		84	-	-	42	-	41	1
Derivative financial instruments settled on gross basis								
- Cash inflow		1,232,949	-	300,060	289,923	636,594	6,372	-
- Cash outflow		(1,231,956)	-	(300,482)	(288,764)	(636,343)	(6,367)	-
Total derivative financial liabilities		93	-	(422)	1,159	251	5	-

This analysis of the financial instruments by contractual undiscounted cash flow might diverge from actual results.

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

47 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	300,838	712	6,594	308,144
Guarantees, acceptances and other credit commitments	854,075	44,615	1,707	900,397
Total	1,154,913	45,327	8,301	1,208,541

	31 December 2018			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	273,488	580	5,116	279,184
Guarantees, acceptances and other credit commitments	684,888	44,768	2,751	732,407
Total	958,376	45,348	7,867	1,011,591

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

- A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;
- A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;
- A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;
- A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;
- An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

47 Risk management (continued)

(d) Operational risk (continued)

- An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and
- An independent risk assessment framework based on the internal audit and the compliance review.

48 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firms approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(iv) Derivative financial instruments

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

(b) Fair value measurement

(i) Financial assets

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

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

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

48 Fair value (continued)

(b) Fair value measurement (continued)

(i) Financial assets (continued)

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortized cost except for debt securities investments are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note III 16.

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers, financial liabilities at fair value through profit or loss and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of “debt securities investments measured at amortised cost”, and “debt securities issued” not presented at fair value at the end of reporting period:

	Carrying value		Fair value	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Financial assets				
Debt securities investments measured at amortised cost	597,436	505,351	602,770	512,668
Financial liabilities				
Debt securities issued	441,135	440,449	435,028	435,137

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

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

48 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

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

48 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	30 June 2019			
	Level 1	Level 2	Level 3	Total
Assets				
<i>Derivative financial assets</i>				
– Currency derivatives	–	6,653	–	6,653
– Interest rate derivatives	–	4,173	3	4,176
– Credit derivatives	–	30	–	30
Loan and advances to customers	–	84,787	–	84,787
<i>Financial assets at fair value through profit or loss</i>				
– Debt instruments held for trading	2,021	29,833	–	31,854
– Financial assets designated at fair value through profit or loss	–	–	5	5
– Other financial assets at fair value through profit or loss	118,455	15,579	3,678	137,712
<i>Debt instruments at fair value through other comprehensive income</i>	44,432	157,915	–	202,347
<i>Equity instruments at fair value through other comprehensive income</i>	20	–	353	373
<i>Precious metals</i>	1,535	–	–	1,535
Total	166,463	298,970	4,039	469,472
Liabilities				
<i>Financial liabilities at fair value through profit or loss</i>	7	–	–	7
<i>Derivative financial liabilities</i>				
– Currency derivatives	–	6,306	–	6,306
– Interest rate derivatives	10	4,227	3	4,240
– Credit derivatives	–	28	1	29
Total	17	10,561	4	10,582

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

48 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Assets				
<i>Derivative financial assets</i>				
– Currency derivatives	–	10,790	–	10,790
– Interest rate derivatives	2	4,316	7	4,325
– Credit derivatives	–	97	–	97
Loans and advances to customers	–	60,314	–	60,314
<i>Financial assets at fair value through profit or loss</i>				
– Debt instruments held for trading	2,257	8,629	–	10,886
– Financial assets designated at fair value through profit or loss	–	–	6	6
– Other financial assets at fair value through profit or loss	198,482	10,228	3,135	211,845
<i>Debt instruments at fair value through other comprehensive income</i>	27,384	126,603	–	153,987
<i>Equity instruments at fair value through other comprehensive income</i>	15	–	352	367
<i>Precious metals</i>	26	–	–	26
Total	228,166	220,977	3,500	452,643
Liabilities				
<i>Financial liabilities at fair value through profit or loss</i>	354	–	–	354
<i>Derivative financial liabilities</i>				
– Currency derivatives	–	10,010	–	10,010
– Interest rate derivatives	24	4,273	7	4,304
– Credit derivatives	–	34	1	35
Total	378	14,317	8	14,703

During the reporting period, there was no significant conversion between the first and second levels of the Group's financial instruments.

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

48 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the period ended 30 June 2019 in the balance of Level 3 fair value measurements is as follows:

	Derivative financial assets	Financial assets designated at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(4)	(51)	–	(55)	4	4
Purchases	–	1,040	1	1,041	–	–
Settlements	–	(447)	–	(447)	–	–
30 June 2019	3	3,683	353	4,039	(4)	(4)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(4)	(51)	–	(55)	4	4

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

	Derivative financial assets	Financial assets designated at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2018	4	41,875	98	41,977	(3)	(3)
Total gains or losses:						
– In profit or loss	5	(2,196)	–	(2,191)	(4)	(4)
Purchases	–	2,618	254	2,872	(1)	(1)
Settlements	(2)	(39,156)	–	(39,158)	–	–
31 December 2018	7	3,141	352	3,500	(8)	(8)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	5	(2,196)	–	(2,191)	(4)	(4)

During the reporting period, there were no significant transfers into or out of Level 3.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

48 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position.

	30 June 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	150,580	452,190	–	602,770
Financial liabilities				
Debt securities issued	27,374	407,654	–	435,028
	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	81,743	430,925	–	512,668
Financial liabilities				
Debt securities issued	26,492	408,645	–	435,137

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 30 June 2019, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

49 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position.

	30 June 2019	31 December 2018
Entrusted loans	136,466	148,654
Entrusted funds	136,466	148,654

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

50 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertaking's by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	30 June 2019	31 December 2018
Loan commitments		
– Original contractual maturity within one year	27,213	33,056
– Original contractual maturity more than one year (inclusive)	16,683	12,688
Credit card commitments	264,248	233,440
Subtotal	308,144	279,184
Acceptances	590,320	477,110
Letters of guarantees	129,056	123,416
Letters of credit	180,836	131,696
Guarantees	185	185
Total	1,208,541	1,011,591

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount of credit commitments

	30 June 2019	31 December 2018
Credit risk-weighted amount of credit commitments	375,676	351,409

The credit risk-weighted amount of credit commitments represent to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

(Expressed in millions of Renminbi, unless otherwise stated)

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

50 Commitments and contingent liabilities (continued)

(c) Capital commitments

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

	30 June 2019	31 December 2018
Contracted but not paid		
– Purchase of property and equipment	778	790
Approved but not contracted for		
– Purchase of property and equipment	2,046	1,942
Total	2,824	2,732

(d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 30 June 2019.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

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

	30 June 2019	31 December 2018
Redemption commitments	7,995	8,192

(e) Outstanding litigations and disputes

As at 30 June 2019, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB937 million (31 December 2018: RMB1,007 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels (Note III 33). The Group considers that the provisions made are reasonable and adequate.

51 Subsequent Events

The Bank issued 350 million preference shares at a price of 100 per share in the mainland China on 15 July 2019 by means of non-public issuance which was approved by the CBIRC and CSRC. The total issue amount was RMB35 billion, the coupon yield is reset every 5 years, and the dividend yield of the first interest cycle is 4.80%. As at 19 July 2019, the Bank has received the net amount after deducting the underwriting fees.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the Rules on Liquidity Risk Management of Commercial Banks, the commercial banks' Liquidity Coverage Ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	30 June 2019
Liquidity coverage ratio	123.26%
High Quality Liquid Assets	527,549
Net cash outflows in 30 days from the end of the reporting period	427,994

Liquidity Ratio*

	As at 30 June 2019	Average for the period ended 30 June 2019	As at 31 December 2018	Average for the year ended 31 December 2018
RMB current assets to RMB current liabilities	64.41%	70.37%	64.26%	58.20%
Foreign current assets to foreign current liabilities	86.44%	68.77%	62.15%	74.74%

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

Leverage Ratio

	30 June 2019
Leverage Ratio	6.01%

Pursuant to the Leverage Ratio Management of Commercial Banks which was effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Net Stable Funding Ratio

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

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

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

As at 30 June 2019, the Group meet the supervision requirement with the net stable funding ratio standing at 103.66%.

Indicators	30 June 2019
Available and stable funds	2,594,154
Required stable funds	2,502,665
Net stable funding ratio	103.66%

2 CURRENCY CONCENTRATIONS

	30 June 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	214,726	37,430	33,201	285,357
Spot liabilities	(283,765)	(35,950)	(17,769)	(337,484)
Forward purchases	795,935	24,378	1,610	821,923
Forward sales	(735,739)	(25,608)	(16,579)	(777,926)
Net (short)/long position	(8,843)	250	463	(8,130)
Net structural position	9	24	56	89

	31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	176,209	38,616	33,367	248,192
Spot liabilities	(240,222)	(39,524)	(20,018)	(299,764)
Forward purchases	704,568	11,509	1,436	717,513
Forward sales	(657,793)	(8,780)	(14,357)	(680,930)
Net (short)/long position	(17,238)	1,821	428	(14,989)
Net structural position	9	25	63	97

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

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within mainland China, and regards all claims on third parties outside mainland China as international claims.

International claims include loans and advances to customers, balances with central banks, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 30 June 2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	43,189	2,050	61,522	106,761
– of which attributed to Hong Kong	13,959	790	27,019	41,768
Europe	6,627	39	21,618	28,284
North and South America	7,735	34	4,678	12,447
Total	57,551	2,123	87,818	147,492

	As at 31 December 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	73,966	910	24,329	99,205
– of which attributed to Hong Kong	22,898	782	15,034	38,714
Europe	7,633	40	21,444	29,117
North and South America	11,352	269	15,801	27,422
Total	92,951	1,219	61,574	155,744

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segments

	30 June 2019	31 December 2018
Head Office	8,100	7,455
Bohai Rim	7,751	5,077
Yangtze River Delta	7,364	5,140
Pearl River Delta	3,521	4,216
Western	4,186	4,149
Central	3,460	4,102
Northeastern	1,722	2,151
Overseas	8	8
Total	36,112	32,298

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(b) By overdue days

	30 June 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	12,750	8,268
– between 6 months and 1 year (inclusive)	11,873	13,049
– over 1 year	11,489	10,981
Total	36,112	32,298
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.49%	0.34%
– between 6 months and 1 year (inclusive)	0.46%	0.54%
– over 1 year	0.44%	0.45%
Total	1.39%	1.33%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(c) Collaterals of loans and advances past due but not impaired

	30 June 2019	31 December 2018
Covered portion of loans and advances past due but not impaired	8,172	7,790
Uncovered portion of loans and advances past due but not impaired	20,741	16,346
Total loans and advances past due but not impaired	28,913	24,136
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	29,923	27,886

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at 30 June 2019, substantial amounts of the Group's exposures arose from businesses with mainland China entities or individuals.



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