CHINA EASTERN AIRLINES CORP LTD
Form 6-K
September 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934

For the month of September 2011

Commission File Number: 001-14550

China Eastern Airlines Corporation Limited

(Translation of Registrant's name into English)

Board Secretariat's Office
Kong Gang San Lu, Number 88
Shanghai, China 200335

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F: x Form 20-F ¨ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934: ¨ Yes x No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	China Eastern Airlines Corporation Limited (Registrant)	
Date September 14, 2011	By	/s/ Luo Zhuping Name: Luo Zhuping Title: Director and Company Secretary

Certain statements contained in this announcement may be regarded as "forward-looking statements" within the meaning of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's filings with the U.S. Securities and Exchange Commission. The forward-looking statements included in this announcement represent the Company's views as of the date of this announcement. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company specifically disclaims any obligation to update these forward-looking statements, unless required by applicable laws. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this announcement.

The board of directors (the "Board") of China Eastern Airlines Corporation Limited (the "Company") hereby presents the unaudited interim condensed consolidated financial information of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2011 (which were reviewed and approved by the Board and the audit and risk management committee of the Company (the "Audit Committee") on 29 August 2011), with comparative figures for the corresponding financial information in 2010. The Company's external auditors have conducted a review of the 2011 interim condensed consolidated financial information in accordance with the International Standard on Review Engagements 2410.

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2011 is unaudited and does not necessarily indicate annual or future results.

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION

TO THE SHAREHOLDERS OF CHINA EASTERN AIRLINES CORPORATION LIMITED
(incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial information set out on pages 3 to 43, which comprises the condensed consolidated balance sheet of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2011 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34"Interim Financial Reporting". The Board is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". The condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period ended 30 June 2010 and related explanatory notes were not reviewed. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2011

INTERIM FINANCIAL INFORMATION
Prepared in accordance with International Financial Reporting Standards ("IFRS")
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

		(Unaudited) Six months ended 30 June	
		2011	2010
	Note	RMB'000	RMB'000
Revenues	6	38,079,190	33,127,332
Other operating income		379,461	317,421
Operating expenses			
Aircraft fuel		(13,377,068)	(10,019,390)
Gain on fair value movements of derivatives financial instruments	8	85,496	224,526
Take-off and landing charges		(3,888,726)	(3,401,308)
Depreciation and amortisation		(3,360,471)	(3,217,244)
Wages, salaries and benefits		(4,193,998)	(3,504,886)
Aircraft maintenance		(1,852,945)	(1,993,048)
Food and beverages		(962,742)	(700,759)
Aircraft operating lease rentals		(1,934,634)	(1,916,562)
Other operating lease rentals		(314,715)	(258,104)
Selling and marketing expenses		(1,769,625)	(1,591,849)
Civil aviation infrastructure levies		(655,172)	(613,885)
Ground services and other charges		(246,893)	(181,924)
Office, administrative and other expenses		(3,716,462)	(3,729,656)
Total operating expenses		(36,187,955)	(30,904,089)
Operating profit		2,270,696	2,540,664
Share of results of associates		42,581	7,755
Share of results of jointly controlled entities		15,281	13,716
Finance income	9	855,054	190,936
Finance costs	10	(716,019)	(781,776)
Profit before income tax		2,467,593	1,971,295
Income tax	11	(119,967)	(45,889)
Profit for the period		2,347,626	1,925,406

Prepared in accordance with International Financial Reporting Standards ("IFRS")
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

		(Unaudited)	
		Six months ended 30 June	
		2011	2010
	Note	RMB'000	RMB'000
Profit attributable to:			
Owners of the parent		2,279,255	1,760,561
Non-controlling interests		68,371	164,845
		2,347,626	1,925,406
Earnings per share attributable to owners of the parent during the period			
– Basic and diluted (RMB)	12	0.20	0.16
Profit for the period		2,347,626	1,925,406
Other comprehensive income for the period			
Cash flow hedges, net of tax	13	(21,726)	(61,826)
Fair value movements of available-for-sale investments held by associates		(4,900)	-
Fair value movements of available-for-sale investments		534	(1,607)
Total comprehensive income for the period		2,321,534	1,861,973
Total comprehensive income attributable to:			
Owners of the parent		2,253,163	1,697,128
Non-controlling interests		68,371	164,845
		2,321,534	1,861,973

Prepared in accordance with IFRS
CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2011

	Note	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Non-current assets			
Intangible assets	16	11,346,368	11,333,376
Property, plant and equipment	17	69,932,294	68,822,273
Lease prepayments		1,393,112	1,406,156
Advanced payments on acquisition of aircraft	18	9,161,041	6,356,602
Investments in associates		845,350	807,669
Investments in jointly controlled entities		407,101	406,170
Available-for-sale financial assets		238,333	242,005
Other long-term assets		1,841,155	1,752,115
Deferred tax assets		55,081	75,188
Derivative assets		10,722	52,081
		95,230,557	91,253,635
Current assets			
Flight equipment spare parts		1,429,818	1,286,898
Trade receivables	19	2,537,132	2,127,446
Prepayments, deposits and other receivables		5,052,829	5,157,004
Cash and cash equivalents		4,285,855	3,078,228
Derivative assets		7,249	18,970
Non-current assets held for sale		411,535	411,535
		13,724,418	12,080,081
Current liabilities			
Sales in advance of carriage		2,768,079	2,577,855
Trade payables and notes payable	20	3,113,589	4,275,443
Other payables and accrued expenses		16,154,897	14,536,168
Current portion of obligations under finance leases	21	2,257,027	2,137,831
Current portion of borrowings	22	19,782,740	15,210,660
Income tax payable		127,650	64,787
Current portion of provision for return condition checks for aircraft under operating leases		467,013	339,091
Derivative liabilities		7,142	121,982
		44,678,137	39,263,817
Net current liabilities		(30,953,719)	(27,183,736)
Total assets less current liabilities		64,276,838	64,069,899

Prepared in accordance with IFRS
CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2011

	Note	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Non-current liabilities			
Obligations under finance leases	21	17,008,506	17,070,502
Borrowings	22	20,059,317	23,354,997
Provision for return condition checks for aircraft under operating leases		2,551,574	2,475,412
Other long-term liabilities		1,930,559	1,804,862
Post-retirement benefit obligations		2,732,169	2,556,001
Deferred tax liabilities		29,601	51,814
Derivative liabilities		226,583	194,425
		44,538,309	47,508,013
Net assets		19,738,529	16,561,886
Equity			
Capital and reserves attributable to owners of the parent			
– Share capital	23	11,276,539	11,276,539
– Reserves		6,247,911	3,994,748
		17,524,450	15,271,287
Non-controlling interests		2,214,079	1,290,599
Total equity		19,738,529	16,561,886

Prepared in accordance with IFRS
CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2011

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Net cash inflow from operating activities	5,515,206	4,821,423
Net cash outflow from investing activities	(5,526,675)	(4,700,899)
Net cash inflow from financing activities	1,230,130	2,626,040
Net increase in cash and cash equivalents	1,218,661	2,746,564
Cash and cash equivalents at 1 January	3,078,228	1,735,248
Exchange adjustments	(11,034)	(21,047)
Cash and cash equivalents at 30 June	4,285,855	4,460,765

Prepared in accordance with IFRS
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2011

	Attributable to owners of the parent					
	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Six months ended 30 June 2011 (Unaudited)						
Balance at 1 January 2011	11,276,539	16,950,255	(12,955,507)	15,271,287	1,290,599	16,561,886
Total comprehensive income for the six months ended 30 June 2011	–	(26,092)	2,279,255	2,253,163	68,371	2,321,534
Dividends paid to non-controlling interests in subsidiaries	–	–	–	–	(149,391)	(149,391)
Capital contribution by non-controlling interests in subsidiary	–	–	–	–	1,004,500	1,004,500
Balance at 30 June 2011	11,276,539	16,924,163	(10,676,252)	17,524,450	2,214,079	19,738,529
Six months ended 30 June 2010 (Unaudited)						
Balance at 1 January 2010	9,581,700	9,566,349	(17,913,496)	1,234,553	441,628	1,676,181
Total comprehensive income for the six months ended 30 June 2010	–	(63,433)	1,760,561	1,697,128	164,845	1,861,973
Issuance of new shares for the acquisition of Shanghai Airlines Co., Ltd. ("Shanghai Airlines")	1,694,839	5,152,310	–	6,847,149	–	6,847,149
Non-controlling interests addition through the acquisition of Shanghai Airlines	–	–	–	–	53,920	53,920
Dividends paid to non-controlling interests in subsidiaries	–	–	–	–	(5,413)	(5,413)
Capital contribution by non-controlling interests in subsidiaries	–	–	–	–	352,060	352,060
Balance at 30 June 2010	11,276,539	14,655,226	(16,152,935)	9,778,830	1,007,040	10,785,870

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Corporate Information

China Eastern Airlines Corporation Limited (the "Company"), a joint stock company limited by shares, was incorporated in the People's Republic of China (the "PRC") on 14 April 1995. The address of the Company's registered office is 66 Airport Street, Pudong International Airport, Shanghai, the PRC. The Company and its subsidiaries (together, the "Group") are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services.

The Company is majority owned by China Eastern Air Holding Company ("CEA Holding"), a state-owned enterprise incorporated in the PRC.

The Company's shares are traded on The Stock Exchange of Hong Kong Limited, The New York Stock Exchange and The Shanghai Stock Exchange.

This condensed consolidated interim financial information was approved for issue by the Company's Board on 29 August 2011.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2011 (the "Current Period") has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB").

In preparing the interim financial information, the Board has given careful consideration to the going concern status of the Group in the context of the Group's current working capital deficit.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2.Basis of preparation (cont'd)

As at 30 June 2011, the Group's accumulated losses were approximately RMB10.68 billion; and its current liabilities exceeded its current assets by approximately RMB30.95 billion.

Against this background, the Board has taken active steps to seek additional sources of finance and improve the Group's liquidity position. As at 30 June 2011, the Group had total unused credit facilities of approximately RMB25.4 billion from certain banks. The Board believes that, based on experience to date, it is likely that these facilities will be rolled over in future years if required.

With the credit facilities and based on the Group's history of obtaining finance and its relationships with its bankers and creditors, the Board considers that the Group will be able to obtain sufficient financing to enable it to operate, as well as to meet its liabilities as and when they become due and its capital expenditure requirements. Accordingly, the Board believes that it is appropriate to prepare these financial information on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

3. Accounting policies

Except as described in note 3(a) below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

3. Accounting policies (cont'd)

(a) New standards, amendments and interpretations to existing standards which are effective for accounting periods beginning on or after 1 January 2011 and adopted by the Group

The Group has adopted the following new standards and amendments to existing standards which are relevant for the Group's existed business and mandatory for the first time for the financial year beginning 1 January 2011:

- The improvement related to IAS 34 "Interim financial reporting" in the Third Improvement Project is an amendment which emphasises the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The improvement only results in additional disclosures.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 and have no material impact for the Group:

• The improvement related to IAS 1	Presentation of financial statements
• The improvement related to IFRS 7	Financial instruments: Disclosures
• The improvement related to IFRIC–Int 13	Customer loyalty programmes
• The improvement related to IAS 27	Consolidated and separate financial statements
• The improvement related to IFRS 3 (revised)	Business combinations

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3.Accounting policies (cont'd)

(a)(cont'd)

The following new standards, amendments and interpretations to existing standards are mandatory for the first time for the financial year beginning 1 January 2011, but are not currently relevant for the Group:

•	IAS 32 (Amendment)	Financial Instruments: Disclosure and Presentation – Classification of Rights Issue
•	IFRS 1 (Amendment)	First-time Adoption of IFRSs – Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters
•	IFRIC–Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
•	IFRIC–Int 19	Extinguishing Financial Liabilities with Equity Instruments

(b) Standards, amendments and interpretations to existing standards that are not yet effective for the financial year beginning 1 January 2011 and have not been early adopted

The IASB has also issued certain new/revised standards, amendments or interpretations to existing standards (collectively the "New or Revised IFRSs"). The New or Revised IFRSs are not yet effective for the financial year beginning 1 January 2011. The Group has not early adopted the "New and Revised IFRSs" and is assessing the impact but is not yet in a position to state whether any substantial changes to the Group's accounting policies or to the presentation of the financial statements will be resulted.

4. Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

5. Financial risk management

(a) Financial Risk Factors

The Group's activities expose to a variety of financial risks: market risk (including currency risk, interest rate risk and fuel price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010.

There have been no changes in risk management policies since year ended 31 December 2010.

(b)Liquidity Risk

The Group's primary cash requirements have been for additions of and upgrades to aircraft, engines and flight equipment and repayments of related borrowings. The Group finances its working capital requirements through a combination of funds generated from operations and both short and long term bank loans. The Group generally finances the acquisition of aircraft through long-term finance leases and bank loans.

The Group operates with a working capital deficit. As at 30 June 2011, the Group's net current liabilities amounted to RMB30,954 million (2010: RMB27,184 million). For six months ended 30 June 2011, the Group recorded a net cash inflow from operating activities of RMB5,515 million (2010: inflow of RMB4,821 million), a net cash outflow from investing activities and financing activities of RMB4,296 million (2010: outflow of RMB2,074 million), and an increase in cash and cash equivalents of RMB1,219 million (2010: increase of RMB2,747 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5.Financial risk management (cont'd)

(b) Liquidity Risk (cont'd)

The Board believes that cash from operations and short and long term bank borrowings will be sufficient to meet the Group's operating cash flow. Due to the dynamic nature of the underlying businesses, the Group's treasury policy aims at maintaining flexibility in funding by keeping credit lines available. The Board believes that the Group has obtained sufficient general credit facilities from PRC banks for financing future capital commitments and for working capital purposes.

Management monitors rolling forecasts of the Group's liquidity reserves on the basis of expected cash flows.

The table below analyses the Group's financial liabilities that will be settled by relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 30 June 2011 (Unaudited)				
Borrowings	20,732,978	8,293,489	6,433,549	6,618,431
Obligations under finance leases	2,574,853	2,674,904	7,659,379	7,920,809
Trade and other payables	18,683,802	8,629	266,360	309,695
Total	41,991,633	10,977,022	14,359,288	14,848,935
At 31 December 2010 (Audited)				
Borrowings	16,113,516	8,591,821	9,140,195	6,729,831
Obligations under finance leases	2,476,451	2,539,816	7,498,600	8,359,802
Trade and other payables	18,151,076	8,830	336,761	314,944
Total	36,741,043	11,140,467	16,975,556	15,404,577

5.Financial risk management (cont'd)

(c)Fair Value Estimation

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2011 and 31 December 2010.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 30 June 2011(Unaudited)				
Assets				
Derivatives financial instruments				
– Crude oil option contracts	–	7,249	–	7,249
– Interest rate swaps	–	10,722	–	10,722
Available-for-sale financial assets	1,797	–	236,536	238,333
Total	1,797	17,971	236,536	256,304
Liabilities				
Derivatives financial instruments				
– Crude oil option contracts	–	4,562	–	4,562
– Interest rate swaps	–	169,535	–	169,535
– Forward foreign exchange contracts	–	59,628	–	59,628
Total	–	233,725	–	233,725

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5.Financial risk management (cont'd)

(c)Fair Value Estimation (cont'd)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2010 (Audited)				
Assets				
Derivatives financial instruments				
– Crude oil option contracts	–	18,970	–	18,970
– Interest rate swaps	–	52,081	–	52,081
Available-for-sale financial assets	5,469	–	236,536	242,005
Total	5,469	71,051	236,536	313,056
Liabilities				
Derivatives financial instruments				
– Crude oil option contracts	–	48,612	–	48,612
– Interest rate swaps	–	191,247	–	191,247
– Forward foreign exchange contracts	–	76,548	–	76,548
Total	–	316,407	–	316,407

The different levels are defined as follows:

• Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

•Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

• Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

5.Financial risk management (cont'd)

For the six months ended 30 June 2011, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

For the six months ended 30 June 2011, there was no reclassification of financial assets.

6. Revenues

The Group is principally engaged in operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services.

	(Unaudited) Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Traffic revenues		
– Passenger	31,794,486	25,937,847
– Cargo and mail	3,580,560	4,210,377
Tour operations income	897,961	834,540
Ground service income	856,837	597,406
Commission income	299,047	172,166
Others	650,299	1,374,996
	38,079,190	33,127,332

Note:

Pursuant to the notice of exemption of business tax on the provision of international transportation services (Cai Shui [2010] No. 8) jointly issued by Ministry of Finance and the State Administration of Taxation, the Group's revenues from the provision of international transportation services are exempt from business tax from 1 January 2010.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6.Revenues (cont'd)

Pursuant to the relevant tax rules and regulations in the PRC, the Group's domestic traffic revenues are subject to business tax levied at rate of 3% and majority of the Group's tour operations income, ground service income, commission income and other revenues are subject to business tax levied at rates of 3% or 5%.

The business tax incurred and set off against the above Group's revenues for the six months ended 30 June 2011 amounted to approximately RMB776 million (2010: approximately RMB661 million).

7. Segment information

(a)Chief Operation Decision Maker ("CODM"), Office of the General Manager, Reviews the Group's Internal Reporting in order to Assess Performance and Allocate Resources.

The Group has one major reportable operating segment, the "airline operations". The "airline operations" comprises the provision of air passenger, air cargo services, mail and ground logistics.

Other services including tour operations, aviation training, air catering and other miscellaneous services are not included within the airline operations segment, as their internal reports are separately provided to the CODM. The results of these operations are included in the "other segments" column.

Inter-segment transactions are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the Group's CODM. The Group's CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the "PRC Accounting Standards"), which differ from IFRS in certain aspects. The amount of each material reconciling items from the Group's reportable segment revenue, profit and loss, assets and liabilities arising from different accounting policies are set out in Note 7(c) below.

7.Segment information (cont'd)

(a)(cont'd)

The segment results (under PRC Accounting Standards) for the six months ended 30 June 2011 are as follows:

	(Unaudited)				
	Airline operations RMB'000	Other segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
Reportable segment revenue from external customers	37,830,299	951,855	–	–	38,782,154
Inter-segment sales	–	92,464	(92,464)	–	–
Reportable segment revenue	37,830,299	1,044,319	(92,464)	–	38,782,154
Reportable segment profit before income tax	2,559,372	19,990	–	63,472	2,642,834
Other segment information					
Depreciation and amortisation	3,497,463	44,839	–	–	3,542,302
Impairment losses	35,199	21	–	–	35,220
Capital expenditure	7,340,893	61,764	–	–	7,402,657

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7.Segment information (cont'd)

(a)(cont'd)

The segment results (under PRC Accounting Standards) for the six months ended 30 June 2010 are as follows:

	(Unaudited)				
	Airline operations RMB'000	Other segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
Reportable segment revenue from external customers	31,885,898	1,750,275	–	–	33,636,173
Inter-segment sales	210,752	208,018	(418,770)	–	–
Reportable segment revenue	32,096,650	1,958,293	(418,770)	–	33,636,173
Reportable segment profit before income tax	2,105,186	36,825	–	25,626	2,167,637
Other segment information					
Depreciation and amortisation	3,283,165	46,409	–	–	3,329,574
Impairment losses	76,552	373	–	–	76,925
Capital expenditure	6,486,975	34,970	–	–	6,521,945

7.Segment information (cont'd)

(a)(cont'd)

The segment assets and liabilities (under PRC Accounting Standards) as at 30 June 2011 and 31 December 2010 are as follows:

	Airline operations RMB'000	Other segments RMB'000	Elimination RMB'000	Unallocated* RMB'000	Total RMB'000
At 30 June 2011 (Unaudited)					
Reportable segment assets	103,076,871	2,017,297	(156,609)	1,490,784	106,428,343
Reportable segment liabilities	85,652,954	1,006,043	(156,609)	–	86,502,388
At 31 December 2010 (Audited)					
Reportable segment assets	97,500,563	2,045,617	(191,907)	1,455,844	100,810,117
Reportable segment liabilities	83,387,701	1,038,146	(191,907)	–	84,233,940

*Unallocated assets primarily represent investments in associates and jointly controlled entities, and available-for-sale financial assets. Unallocated results primarily represent the share of results of associates and jointly controlled entities.

(b) The Group's Business Segments Operate in Three Main Geographical Areas, even though They are Managed on a Worldwide Basis.

The Group's revenues (under PRC Accounting Standards) by geographical segment are analysed based on the following criteria:

(1) Traffic revenue from services within the PRC (excluding the Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan (collectively known as "Regional")) is classified as domestic operations. Traffic revenue from inbound and outbound services between the PRC, Regional or overseas markets is attributed to the segments if either the origin or destination of each flight segment is in Regional or overseas.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7.Segment information (cont'd)

(b) (cont'd)

(2)Revenue from ticket handling services, airport ground services, and other miscellaneous services are classified on the basis of where the services are performed.

	(Unaudited) Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Domestic (the PRC, excluding Hong Kong, Macau and Taiwan)	26,665,770	22,891,501
International	10,260,432	8,962,373
Regional (Hong Kong, Macau and Taiwan)	1,855,952	1,782,299
Total	38,782,154	33,636,173

The major revenue-earning assets of the Group are its aircraft, all of which are registered in the PRC. Since the Group's aircraft are deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities by geography, and hence segment assets and capital expenditure by geographic have not been presented.

7.Segment information (cont'd)

(c)Reconciliation of Reportable Segment Revenue, Profit, Assets and Liabilities to the Consolidated Figures as Reported in the Condensed Consolidated Financial Information.

	Note	(Unaudited) Six months ended 30 June 2011 RMB'000	2010 RMB'000
Revenue			
Reportable segment revenue		38,782,154	33,636,173
– Reclassification of business tax	(i)	(776,340)	(661,118)
– Reclassification of expired sales in advance of carriage	(i)	73,376	152,277
Consolidated revenue		38,079,190	33,127,332

	Note	(Unaudited) Six months ended 30 June 2011 RMB'000	2010 RMB'000
Profit before income tax			
Reportable segment profit		2,642,834	2,167,637
– Difference in depreciation and impairment charges for aircraft, engines and rotables	(ii)	(3,283)	(29,592)
– Provision for post-retirement benefits	(iii)	(176,168)	(170,317)
– Reversal of revaluation surplus relating to land use rights		4,210	3,567
Consolidated profit before income tax		2,467,593	1,971,295

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7.Segment information (cont'd)

(c) (cont'd)

	Note	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Assets			
Reportable segment assets		106,428,343	100,810,117
– Difference in depreciation and impairment charges for aircraft, engines and rotables	(ii)	80,864	84,147
– Reversal of revaluation surplus relating to land use rights	(iv)	(347,996)	(352,206)
– Difference in intangible asset (goodwill) arising from the acquisition of Shanghai Airlines	(v)	2,760,665	2,760,665
– Others		33,099	30,993
Consolidated total assets		108,954,975	103,333,716

	Note	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Liabilities			
Reportable segment liabilities		86,502,388	84,233,940
– Provision for post-retirement benefits	(iii)	2,793,451	2,617,283
– Others		(79,393)	(79,393)
Consolidated total liabilities		89,216,446	86,771,830

7.Segment information (cont'd)

(c)(cont'd) Notes:

(i) The difference represents the different classification of business tax and expired sales in advance of carriage under PRC Accounting Standards and IFRS.

(ii) The difference represents the differences in the useful lives and residual values of aircraft, engines and rotable adopted for depreciation purpose in prior years under PRC Accounting Standards and IFRS. Despite the depreciation policies of these assets have been unified under IFRS and the PRC Accounting Standards in recent years, the changes were applied prospectively as changes in accounting estimates which results in the differences in the carrying amounts and related depreciation charges under IFRS and PRC Accounting Standards.

(iii) In accordance with the PRC Accounting Standards, certain employees' post- retirement benefits are recognised upon actually incurred. Under IFRS, such post-retirement benefits under defined benefit schemes are required to be recognised over the employees' service period using projected unit credit method.

(iv) Under the PRC Accounting standards, land use rights injected by parent company as capital contribution are stated at valuation less accumulated amortisation. Under IFRS, land use rights are recorded as prepaid operating leases at historical cost which was nil at the time of listing.

(v) The determination of the fair values of the acquisition costs and identifiable assets and liabilities of Shanghai Airlines acquired is different under IFRS and the PRC Accounting Standards, which results in difference in the intangibles/ goodwill recognised arising from the acquisition.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8.Gain on fair value movements of derivatives financial instruments

Gain on fair value movements of derivatives financial instruments is mainly derived from the fair value movements of the crude oil option contracts.

9. Finance income

	(Unaudited) Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Exchange gains, net (Note)	817,649	155,664
Interest income	37,405	35,272
	855,054	190,936

Note:

The exchange gains for the six months ended 30 June 2011 and 2010 primarily related to the translation of the Group's foreign currency denominated borrowings and obligations under finance leases at period-end exchange rates.

10. Finance costs

	(Unaudited) Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Interest relating to obligations under finance leases	150,879	164,871
Interest on borrowings	676,570	613,610
Interest relating to notes payable	12,913	85,499
	840,362	863,980
Less: amounts capitalised into advanced payments on acquisition of aircraft (Note)	(120,439)	(79,788)
amounts capitalised into construction in progress (Note)	(3,904)	(2,416)
	716,019	781,776

Note:

The average interest rate used for interest capitalisation is 3.91% per annum for the six months ended 30 June 2011 (2010: 3.05% per annum).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. Income tax

Income tax charged to the condensed consolidated income statement is as follows:

	(Unaudited) Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Provision for PRC income tax	122,073	49,809
Deferred taxation	(2,106)	(3,920)
	119,967	45,889

Under the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which was approved by the National People's Congress and became effective from 1 January 2008, the Company and certain of its subsidiaries (the "Pudong Subsidiaries") are entitled to a transitional arrangement to gradually increase the applicable corporate income tax rate to from 15% to 25% over a five-year period from 2008. For the six months ended 30 June 2011, the corporate income tax rate applicable to the Company and the Pudong Subsidiaries was 24% (2010: 22%). Other subsidiaries, except for those incorporated in Hong Kong which subject to the Hong Kong corporate income tax rate of 16.5% (2010: 16.5%), are generally subject to the PRC standard corporate tax rate of 25% (2010: 25%) under the New CIT Law.

The Group operates international flights to overseas destinations. There was no material overseas taxation for the six months ended 30 June 2011, as there are double tax treaties between the PRC and the corresponding jurisdictions (including Hong Kong) relating to aviation businesses.

12. Earnings per share

The calculation of basic earnings per share is based on the unaudited consolidated profit attributable to owners of the parent of approximately RMB2,279 million (2010: RMB1,761 million) and the weighted average number of shares of 11,276,538,860 (2010:11,020,893,000) in issue during the six months ended 30 June 2011.

The Company has no potentially dilutive option or other instruments relating to ordinary shares.

13. Cash flow hedges, net of tax

Cash flow hedges, net of tax, represent unrealised gains and losses arising from the valuation of interest rate swaps contracts and forward foreign exchange contracts.

14. Dividend

The Board has not recommended any interim dividend for the six months ended 30 June 2011 (2010: Nil).

15. Profit appropriation

No appropriation to the statutory reserves has been made during the six months ended 30 June 2011. Such appropriations will be made at year end in accordance with the PRC regulations and the Articles of Association of individual group companies.

16. Intangible assets

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Goodwill	11,269,695	11,269,695
Other intangible assets	76,673	63,681
	11,346,368	11,333,376

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. Property, plant and equipment

	(Unaudited) Six months ended 30 June 2011		
	Aircraft, engines and flight equipment RMB'000	Others RMB'000	Total RMB'000
Carrying amounts at 1 January 2011	62,119,354	6,702,919	68,822,273
Transfers from advanced payments on acquisition of aircraft (Note 18)	1,173,689	–	1,173,689
Other additions	2,306,250	969,446	3,275,696
Depreciation charged for the period	(3,024,841)	(302,392)	(3,327,233)
Disposals	–	(12,131)	(12,131)
Carrying amounts at 30 June 2011	62,574,452	7,357,842	69,932,294

	(Unaudited) Six months ended 30 June 2010		
	Aircraft, engines and flight equipment RMB'000	Others RMB'000	Total RMB'000
Carrying amounts at 1 January 2010	51,729,129	4,974,431	56,703,560
Additions through the acquisition of Shanghai Airlines	6,398,471	2,121,231	8,519,702
Transfers from advanced payments on acquisition of aircraft (Note 18)	2,017,588	–	2,017,588
Other additions	3,524,277	459,725	3,984,002
Depreciation charged for the period	(2,828,892)	(341,057)	(3,169,949)
Disposals	–	(8,353)	(8,353)
Carrying amounts at 30 June 2010	60,840,573	7,205,977	68,046,550

18. Advanced payments on acquisition of aircraft

	(Unaudited) Six months ended 30 June 2011 RMB'000	2010 RMB'000
At beginning of period	6,356,602	5,081,174
Additions through the acquisition of Shanghai Airlines	–	1,072,367
Other additions	3,857,689	2,305,310
Interest capitalised (Note 10)	120,439	79,788
Transfers to property, plant and equipment (Note 17)	(1,173,689)	(2,017,588)
At end of period	9,161,041	6,521,051

19. Trade receivables

The credit terms given to trade customers are determined on an individual basis, with credit periods generally ranging from half a month to two months.

The aging analysis of trade receivables is as follows:

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Within 90 days	2,421,121	2,058,666
91 to 180 days	24,245	27,094
181 to 365 days	68,354	39,882
Over 365 days	244,572	233,202
	2,758,292	2,358,844
Less: provision for impairment of receivables	(221,160)	(231,398)
Trade receivables	2,537,132	2,127,446

Balances with related parties included in trade receivables are summarised in Note 25(b)(i).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20. Trade payables and notes payable

The aging analysis of trade payables and notes payable is as follows:

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Within 90 days	1,679,527	2,477,327
91 to 180 days	590,433	1,190,393
181 to 365 days	576,729	290,991
Over 365 days	266,900	316,732
	3,113,589	4,275,443

Balances with related parties included in trade payables and notes payables are summarised in Note 25(b)(ii).

As at 30 June 2011, notes payable amounted to RMB371 million (2010: RMB1,425 million), which mainly were unsecured, bore effective interest rates ranging from 4.42% to 5.27% per annum (2010: 3.48% to 4.5% per annum) and were repayable within six months.

21. Obligations under finance leases

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Within one year	2,257,027	2,137,831
In the second year	2,390,531	2,243,227
In the third to fifth years inclusive	7,080,199	6,888,718
After the fifth year	7,537,776	7,938,557
Total	19,265,533	19,208,333
Less: amount repayable within one year	(2,257,027)	(2,137,831)
Long-term portion	17,008,506	17,070,502

22. Borrowings

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Non-current		
Long-term bank borrowings		
– Secured	12,392,414	13,107,405
– Unsecured	7,666,903	10,247,592
	20,059,317	23,354,997
Current		
Current portion of long-term bank borrowings		
– Secured	2,200,226	2,011,861
– Unsecured	4,075,609	2,005,721
Short-term bank borrowings		
– Secured	745,689	1,324,540
– Unsecured	12,761,216	9,868,538
	19,782,740	15,210,660
	39,842,057	38,565,657

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23. Share capital

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Registered, issued and fully paid of RMB1.00 each		
A shares listed on The Shanghai Stock Exchange ("A Shares")	7,782,214	7,782,214
– Tradable shares held by CEA Holding with trading moratorium	4,831,375	4,831,375
– Tradable shares held by other investors with trading moratorium	288,889	288,889
– Tradable shares without trading moratorium	2,661,950	2,661,950
H shares listed on The Stock Exchange of Hong Kong Limited ("H Shares")	3,494,325	3,494,325
– Tradable shares held by CES Global Holding (Hong Kong) Limited with trading moratorium	1,437,375	1,437,375
– Tradable shares without trading moratorium	2,056,950	2,056,950
	11,276,539	11,276,539

Note:

Pursuant to articles 49 and 50 of the Company's Articles of Association, both the A shares and the H shares are all registered ordinary shares and carry equal rights.

24. Commitments

(a)Capital Commitments

The Group had the following capital commitments:

	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Authorised and contracted for:		
– Aircraft, engines and flight equipment	88,725,602	96,262,948
– Other property, plant and equipment	181,444	844,855
	88,907,046	97,107,803
Authorised but not contracted for:		
– Aircraft, engines and flight equipment	1,773,361	3,282,093
	90,680,407	100,389,896

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. Commitments (cont'd)

(b)Operating Lease Commitments

As at the balance sheet date, the Group had commitments under operating leases to pay future minimum lease rentals as follows:

	(Unaudited) 30 June 2011		(Audited) 31 December 2010	
	Aircraft, engines and flight equipment RMB'000	Land and buildings RMB'000	Aircraft, engines and flight equipment RMB'000	Land and buildings RMB'000
Within one year	3,748,975	330,925	3,814,179	216,771
In the second year	3,476,991	176,928	3,427,740	187,636
In the third to fifth years inclusive	8,334,130	306,984	8,520,237	460,368
After the fifth year	6,955,347	2,784,252	7,829,784	2,705,609
	22,515,443	3,599,089	23,591,940	3,570,384

25. Related party transactions

The Group is controlled by CEA Holding, which directly owns approximately 42.84% of the Company's shares as at 30 June 2011 (2010: approximately 42.84%). In addition, through CES Global Holding (Hong Kong) Limited, a wholly owned subsidiary of CEA Holding, CEA Holding owns approximately 17.09% of the Company's shares as at 30 June 2011 (2010: approximately 17.09%).

25. Related party transactions (cont'd)

(a) Related Party Transactions

Nature of transactions	Related party	(Unaudited) Income/(expense or payments) Six months ended 30 June 2011 RMB'000	2010 RMB'000
With CEA Holding or companies directly or indirectly held by CEA Holding:			
Interest income on deposits at an average rate of 0.36% per annum (2010: 0.36% per annum)	Eastern Air Group Finance Co., Ltd. ("Eastern Finance")	11,370	5,784
Interest expense on loans at an average rate of 4.88% per annum (2010: 4.39% per annum)	Eastern Finance	(32,227)	(25,966)
Interest expense on loans at an average rate of 5.18% per annum (2010: 5.14% per annum)	CEA Holding	(460)	(2,373)
Commission expense on air tickets sold on behalf of the Group, at rates ranging from 3% to 9% of the value of tickets sold	Shanghai Dongmei Aviation Travel Co., Ltd. ("Shanghai Dongmei") and its subsidiaries	(8,756)	(5,242)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

25. Related party transactions (cont'd)

(a) Related Party Transactions (cont'd)

Nature of transactions	Related party	(Unaudited) Income/(expense or payments) Six months ended 30 June 2011 RMB'000	2010 RMB'000
Handling charges of 0.1% to 2% for purchase of aircraft, flight equipment, flight equipment spare parts, other property, plant and equipment	Eastern Aviation Import & Export Co., Ltd. ("Eastern Import & Export")	(23,562)	(26,989)
Repairs and maintenance expense for aircraft and engines	Shanghai Eastern Union Aviation Wheels & Brakes Overhaul Engineering Co., Ltd.	(24,914)	(29,542)
	Shanghai Technologies Aerospace Co., Ltd.	(82,097)	(82,455)
	Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd.	(496,763)	(302,916)
Supply of food and beverages	Shanghai Eastern Air Catering Co., Ltd. and its subsidiaries	(236,572)	(245,664)
Acquisition of air cargo business related assets and liabilities	CEA Holding	(187,729)	–

25. Related party transactions (cont'd)

(a) Related Party Transactions (cont'd)

		(Unaudited) Income/(expense or payments) Six months ended 30 June	
		2011	2010
Nature of transactions	Related party	RMB'000	RMB'000
Advertising expense	Eastern Aviation Advertising Services Co., Ltd.	(12,797)	(6,732)
Media royalty fee	Eastern Aviation Advertising Services Co., Ltd.	6,450	–
Maintenance and repair services fee	CEA Development Co., Ltd. and its subsidiaries	(27,163)	(19,313)
	Shanghai Hute Aviation Technology Co., Ltd.	(14,320)	(13,458)
Land and building rental	CEA Holding	(21,751)	(27,570)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

25. Related party transactions (cont'd)

(b) Balances With Related Parties

(i) Amounts due from related parties

Nature	Company	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Trade receivables	Kunming Dongmei Aviation Travel Co., Ltd.	11,228	12,879
	Shanghai Eastern Aviation International Travel and Transportation Co., Ltd.	11,012	11,012
	Others	17,048	14,099
		39,288	37,990
Other receivables	Eastern Import & Export	195,744	63,138
	CEA Holding	59,732	43,282
	Eastern China Kaiya System Integration	32,252	18,605
	Others	32,071	27,706
		319,799	152,731

All the amounts due from related parties are trade in nature, interest free and payable within normal credit terms given to trade customers.

25. Related party transactions (cont'd)

(b) Balances with Related Parties (cont'd)

(ii) Amounts due to related parties

Nature	Company	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Trade payables and notes payable	Eastern Import & Export	500,459	375,602
	Shanghai Eastern Air Catering Co., Ltd.	11,191	23,743
	Others	55,577	78,859
		567,227	478,204
Other payables and accrued expenses	CEA Holding	165,681	69,864
	Others	16,515	13,777
		182,196	83,641

Except for part of the amounts due to CEA Holding, which are reimbursement in nature, all other amounts due to related parties are trade in nature. All notes payable amounts due to related parties are interest free and payable within normal credit terms given by trade creditors.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

25. Related party transactions (cont'd)

(b) Balances with Related Parties (cont'd)

(iii) Short-term deposits and borrowings with an associate and CEA Holding

	Average interest rate 30 June 2011	Average interest rate 31 December 2010	(Unaudited) 30 June 2011 RMB'000	(Audited) 31 December 2010 RMB'000
Short-term deposits (included in Prepayments, Deposits and Other Receivables) in Eastern Finance	0.36 %	0.36 %	1,247,087	1,137,218
Short-term loans (included in Borrowings) from Eastern Finance	4.56 %	4.26 %	177,659	1,286,227
Long-term loans (included in Borrowings) from Eastern Finance	5.27 %	5.00 %	95,000	295,000
Long-term loans (included in Borrowings) from CEA Holding	5.18 %	5.18 %	–	32,000

(c) Guarantees by Holding Company

As at 30 June 2011, bank loans of the Group with an aggregate amount of RMB284 million (2010: RMB575 million) were guaranteed by CEA Holding.

26. Seasonality

The civil aviation industry is subject to seasonal fluctuations, with peak demand generally in the third quarter of the year. As such, the revenues and results of the Group in the first half of the year are generally lower than those in the second half of the year.

27. Post balance sheet event

In August 2011, a wholly owned subsidiary of the Company, Eastern Air Overseas (Hong Kong) Corporation Limited ("the Issuer") issued bond at face value of RMB2.5 billion with 3 years maturity and bear interest at 4% per annum ("the Bonds"). The Company has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds.

SELECTED OPERATING INFORMATION

	For the six months ended 30 June			
	2011	2010	Change	
Capacity				
ATK (available tonne – kilometres) (millions)	8,801.27	8,586.24	2.50	%
– Domestic routes	4,823.68	4,637.30	4.02	%
– International routes	3,577.97	3,562.90	0.42	%
– Regional routes	399.62	386.05	3.52	%
ASK (available seat – kilometres) (millions)	62,298.77	56,381.76	10.49	%
– Domestic routes	42,687.84	40,053.68	6.58	%
– International routes	16,904.96	13,728.68	23.14	%
– Regional routes	2,705.97	2,599.39	4.10	%
AFTK (available freight tonne – kilometres) (millions)	3,194.38	3,511.89	-9.04	%
– Domestic routes	981.77	1,032.47	-4.91	%
– International routes	2,056.52	2,327.32	-11.64	%
– Regional routes	156.08	152.10	2.62	%
Hours flown (thousands)	622.17	570.83	8.99	%
Traffic				
RTK (revenue tonne – kilometres) (millions)	6,250.89	5,934.42	5.33	%
– Domestic routes	3,488.23	3,248.54	7.38	%
– International routes	2,517.98	2,442.74	3.08	%
– Regional routes	244.69	243.14	0.64	%
RPK (revenue passenger – kilometres) (millions)	48,563.76	42,742.54	13.62	%
– Domestic routes	34,140.21	30,907.92	10.46	%
– International routes	12,510.66	9,949.62	25.74	%
– Regional routes	1,912.89	1,885.00	1.48	%
RFTK (revenue freight tonne – kilometres) (millions)	1,921.19	2,122.40	-9.48	%
– Domestic routes	439.60	489.30	-10.16	%
– International routes	1,406.24	1,557.21	-9.69	%
– Regional routes	75.36	75.88	-0.69	%
Number of passengers carried (thousands)	33,245.59	30,120.07	10.38	%
– Domestic routes	28,445.13	25,763.19	10.41	%
– International routes	3,443.81	3,029.27	13.68	%
– Regional routes	1,356.64	1,327.61	2.19	%
Weight of freight carried (kg) (millions)	666.49	719.02	-7.31	%
– Domestic routes	331.41	361.52	-8.33	%
– International routes	275.17	299.77	-8.21	%
– Regional routes	59.92	57.73	3.79	%

	For the six months ended 30 June			
	2011	2010	Change	
Load factors				
Overall load factor (%)	71.02	69.12	1.9pts	
– Domestic routes	72.31	70.05	2.26pts	
– International routes	70.37	68.56	1.81pts	
– Regional routes	61.23	62.98	-1.75pts	
Passenger load factor (%)	77.95	75.81	2.14pts	
– Domestic routes	79.98	77.17	2.81pts	
– International routes	74.01	72.47	1.54pts	
– Regional routes	70.69	72.52	-1.83pts	
Freight load factor (%)	60.14	60.43	-0.29pts	
– Domestic routes	44.78	47.39	-2.61pts	
– International routes	68.38	66.91	1.47pts	
– Regional routes	48.28	49.89	-1.61pts	
Yields and costs				
Revenue tonne – kilometres yield (RMB)	5.66	5.08	11.42	%
– Domestic routes	6.68	5.98	11.71	%
– International routes	4.07	3.66	11.20	%
– Regional routes	7.54	7.31	3.15	%
Passenger – kilometres yield (RMB)	0.65	0.60	8.33	%
– Domestic routes	0.66	0.61	8.20	%
– International routes	0.61	0.57	7.02	%
– Regional routes	0.80	0.76	5.24	%
Freight tonne – kilometres yield (RMB)	1.86	1.98	-6.06	%
– Domestic routes	1.44	1.30	10.77	%
– International routes	1.87	2.07	-9.66	%
– Regional routes	4.19	4.54	-7.71	%

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

In the first half of 2011, confronted by the complex domestic and international economic and social environment, such as high oil prices, high inflation, interest rate hikes and concerns over Japan's nuclear safety, the Group paid much attention to market changes and acted prudently yet proactively based on latest market development to facilitate its hub construction on the basis of its enhanced safety management, further optimizing its route network in adherence to our approach of organic growth. It took full advantage of the opportunity brought by its accession to SkyTeam by vigorously facilitating the construction of its service product system and enhance the quality of the Group's services. Efforts were made to continue to gain depth in the restructuring of the Company and Shanghai Airlines Co., Ltd. ("Shanghai Airlines"), completing the restructuring of the three major cargo airlines (namely China Cargo Airlines Co., Ltd. ("China Cargo Airlines"), Shanghai Airlines Cargo International Co., Ltd. ("Shanghai Cargo Airlines") and Great Wall Airlines) to increase the efficiency of resource utilization. In addition to the reform of the Group's position-based pay scale, the Group strengthened its core management, boosted its competitiveness and generated sound results of operations despite the complexity of the operating environment.

In the first half of 2011, the Group completed (i) the purchase and finance lease of seven aircraft in total, including five A320 aircraft and two A321 aircraft; (ii) the operating-lease of three aircraft, including two B737-800 aircraft and one B777F aircraft; (iii) the disposal of six aircraft, including surrender of the lease of four MD11F aircraft, one CRJ200 aircraft and one B767 aircraft; (iv) the purchase of assets of Great Wall Airlines by China Cargo Airlines, adding three B747 aircraft. As at 30 June 2011, the Group operated a fleet of 362 aircraft, including 344 passenger aircraft and 18 freighters.

During the first half of 2011, the Group introduced eight new domestic routes including Shanghai-to-Lijiang and Hangzhou-to-Urumqi routes; an international route of Shanghai- to-Rome; and increased the frequency of flights in its international routes such as Shanghai- to-Sydney and Shanghai-to-Melbourne. In response to the change in the Japanese market following the Japan earthquake, the Group redeployed its capacity promptly by diverting some capacity away from Japanese routes to domestic routes through measures such as cancellation of routes, reduction of flight frequency and replacement of aircraft models. Furthermore, in terms of freight transportation, the Group opened two new (one domestic and one international) freight routes, namely Shanghai-to-Beijing and Shanghai-to-Singapore. The development and adjustment of routes have extended the coverage of the Group's route network in mainland China as well as other regions in Asia, while at the same time adding to the variety of routes of the Group in the European and the United States markets.

The major business developments of the Group for the first half of 2011 are presented as follows:

Safety Management

In the first half of 2011, with the core theme of "Enhancing Safety Management Level through the Safety Management System (SMS)", the Company strengthened its fundamentals such as safety education, training and operation, with the aim of ensuring aviation safety. As of July 2011, the Company had attained 5 million hours of safe flying in a row, and was awarded the "Flight Safety Five-star Award" by the Civil Aviation Administration of China.

Passenger Traffic Business

In the first half of 2011, the Group actively adjusted the deployment of its capacity, through enlarging the capacity deployed in core markets and major markets such as Shanghai, Xi'an and Kunming, while at the same time, striving to raise the operating capability of international routes, increase high end cabin prices for international long haul routes, increase the proportion of pre-sold seats of the first class and business class cabins, thereby increasing the sales revenue of the two cabins. The Group has also accelerated the integration of the markets of the Company and Shanghai Airlines. The control of the Group over target passenger traffic market was significantly strengthened resulting in significant synergetic effect. Furthermore, the Group actively developed air-rail transportation products to push ahead the implementation of "Integration of Yangtze River Delta Market" strategy.

MANAGEMENT DISCUSSION AND ANALYSIS

Freight Business

In the first half of 2011, amid the overall downturn of the freight market, the Group completed the integration of the three major cargo airlines (China Cargo Airlines, Shanghai Cargo Airlines and Great Wall Airlines). Upon completion of the restructuring, the fleet size of the new China Cargo Airlines reached 18 aircraft, China Cargo Airlines also aligned its market organization and sales policies, while optimizing its deployment of capacity, and consolidated the Group's market share in Shanghai's freight transportation market. At the same time, the new China Cargo Airlines through enriching its sales and marketing, including stepping up sales efforts at key transit points to raise the pre-sold proportion of transits; expanding the sales range for the transportation of special cargoes and opening up new sales channels of special cargoes such as gauge cargoes; facilitating the pre-sale model to stabilize level of revenue; closely managing the detailed marketing arrangement of the Yangtze River Delta and strengthened the sales capability in Yangtze River Delta markets, thereby had increased the sources of income.

Costs Control

During the first half of 2011, the Group adjusted its fleet structure to lower operating costs; adjusted its debt structure to save finance costs; maintained its overall budget management to reduce controllable expenses; commenced its cost optimizing management to lower costs and focused on implementing the three major projects namely catering and in-flight supplies, aircraft maintenance and general expenses; and accelerated the disposal of non-performing assets and idle assets to improve liquidity of assets for raising the efficiency of asset utilization.

Joining SkyTeam

The Company officially joined the SkyTeam on 21 June 2011. To date, the Company has signed code-sharing agreements with 11 SkyTeam member airlines, and entered into VIP lounges and frequent flyer co-operation agreements with 13 member airlines. The Company actively participated in the development of projects relating to the SkyTeam to strengthen international cooperation in order to provide quality and extensive air transport services to both domestic and overseas passengers.

Raising Service Quality

During the first half of 2011, the Group optimised its service standards and business processes and striving to improve its service quality. With respect to soft services, the Group amended and enhanced its cabin service standard, optimised ground service processes and meal delivery service processes, strengthened the training of staff's service skills, and improved staff's communication skills in serving travellers. With respect to hard services, the Group accelerated the retirement of old aircraft; established and optimised the standards of the Group's cabin facilities configuration; integrated and upgraded the VIP lounges at major airports to provide travellers with a more comfortable pre-flight environment; accelerated the upgrade of in-flight entertainment to add varieties to the system; carried out the design of in-flight supplies system and provided more meal choices to raise standards; and optimise catering and in-flight supplies in first class and business class cabins.

Information Technology

In the first half of 2011, the Group was committed to enhancing its ability to support its IT strategy. In terms of sales and marketing, it completed the integration of the e-commerce websites of the Company, Shanghai Airlines and China United Airlines Co., Ltd., released overseas websites with various language versions in order to better support the Group's promotional and marketing activities in overseas markets. In terms of services, efforts were made to provide travellers with additional better quality services and with more features through upgrading and renovating a number of projects, such as the three major systems (i.e. reservations, departure and frg-bottom:2px;">
Estimated

At September 30, 2017 ($ in millions)
cost

fair value

Due

Within one year
$
1,611

$
1,610

After one year through five years
$
346

$
346

After five years through ten years
$
2

$
2

After ten years
$
1,362

$
1,344

We expect actual maturities to differ from contractual maturities because borrowers have the right to prepay certain obligations.
There were no material realized gains or losses recognized for the three and nine months ended September 30, 2017 and 2016.
Although we generally do not have the intent to sell any specific securities held at September 30, 2017, in the ordinary course of managing our investment securities portfolio, we may sell securities prior to their maturities for a variety of reasons, including diversification, credit quality, yield, liquidity requirements and funding obligations.
NOTE 4. LOAN RECEIVABLES AND ALLOWANCE FOR LOAN LOSSES

($ in millions)	September 30, 2017	December 31, 2016
Credit cards	$ 73,946	$ 73,580
Consumer installment loans	1,561	1,384
Commercial credit products	1,384	1,333
Other	37	40
Total loan receivables, before allowance for losses[(a)(b)]	$ 76,928	$ 76,337

(a) Total loan receivables include $22.9 billion and $24.0 billion of restricted loans of consolidated securitization entities at September 30, 2017 and December 31, 2016, respectively. See Note 5. Variable Interest Entities for further information on these restricted loans.
(b) At September 30, 2017 and December 31, 2016, loan receivables included deferred expense, net of deferred income, of $95 million and $82 million, respectively.

Allowance for Loan Losses

($ in millions)	Balance at July 1, 2017	Provision charged to operations	Gross charge-offs	Recoveries	Balance at September 30, 2017
Credit cards	$ 4,906	$ 1,287	$ (1,140)	$ 211	$ 5,264
Consumer installment loans	34	14	(12)	3	39
Commercial credit products	60	9	(14)	2	57
Other	1	—	—	—	$ 1
Total	$ 5,001	$ 1,310	$ (1,166)	$ 216	$ 5,361

($ in millions)	Balance at July 1, 2016	Provision charged to operations	Gross charge-offs	Recoveries	Balance at September 30, 2016
Credit cards	$ 3,800	$ 964	$ (919)	$ 172	$ 4,017
Consumer installment loans	39	11	(11)	4	43
Commercial credit products	53	12	(13)	2	54
Other	2	(1)	—	—	$ 1
Total	$ 3,894	$ 986	$ (943)	$ 178	$ 4,115

($ in millions)	Balance at January 1, 2017	Provision charged to operations	Gross charge-offs	Recoveries	Balance at September 30, 2017
Credit cards	$ 4,254	$ 3,866	$ (3,518)	$ 662	$ 5,264
Consumer installment loans	37	28	(37)	11	39
Commercial credit products	52	48	(48)	5	57
Other	1	—	—	—	$ 1
Total	$ 4,344	$ 3,942	$ (3,603)	$ 678	$ 5,361

($ in millions)	Balance at January 1, 2016	Provision charged to operations	Gross charge-offs	Recoveries	Balance at September 30, 2016
Credit cards	$ 3,420	$ 2,836	$ (2,820)	$ 581	$ 4,017
Consumer installment loans	26	38	(31)	10	43
Commercial credit products	50	36	(39)	7	54
Other	1	—	—	—	1
Total	$ 3,497	$ 2,910	$ (2,890)	$ 598	$ 4,115

Delinquent and Non-accrual Loans

At September 30, 2017 ($ in millions)	30-89 days delinquent	90 or more days delinquent	Total past due	90 or more days delinquent and accruing	Total non-accruing
Credit cards	$ 1,936	$ 1,688	$ 3,624	$ 1,688	$ —
Consumer installment loans	21	4	25	—	4
Commercial credit products	30	15	45	15	—
Total delinquent loans	$ 1,987	$ 1,707	$ 3,694	$ 1,703	$ 4
Percentage of total loan receivables	2.6 %	2.2 %	4.8 %	2.2 %	— %

At December 31, 2016 ($ in millions)	30-89 days delinquent	90 or more days	Total past due	90 or more days	Total non-accruing

		delinquent		delinquent and accruing	
Credit cards	$ 1,695	$ 1,524	$3,219	$ 1,524	$ —
Consumer installment loans	19	4	23	—	4
Commercial credit products	35	18	53	18	—
Total delinquent loans	$ 1,749	$ 1,546	$3,295	$ 1,542	$ 4
Percentage of total loan receivables	2.3 %	2.0 %	4.3 %	2.0 %	— %

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Impaired Loans and Troubled Debt Restructurings

Most of our non-accrual loan receivables are smaller balance loans evaluated collectively, by portfolio, for impairment and therefore are outside the scope of the disclosure requirements for impaired loans. Accordingly, impaired loans represent restructured smaller balance homogeneous loans meeting the definition of a Troubled Debt Restructuring ("TDR"). We use certain loan modification programs for borrowers experiencing financial difficulties. These loan modification programs include interest rate reductions and payment deferrals in excess of three months, which were not part of the terms of the original contract.

We have both internal and external loan modification programs. We use long-term modification programs for borrowers experiencing financial difficulty as a loss mitigation strategy to improve long-term collectability of the loans that are classified as TDRs. The long-term program involves changing the structure of the loan to a fixed payment loan with a maturity no longer than 60 months and reducing the interest rate on the loan. The long-term program does not normally provide for the forgiveness of unpaid principal but may allow for the reversal of certain unpaid interest or fee assessments. We also make loan modifications for customers who request financial assistance through external sources, such as consumer credit counseling agency programs. These loans typically receive a reduced interest rate but continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees. The following table provides information on loans that entered a loan modification program during the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2017	2016	2017	2016
Credit cards	$210	$164	$557	$415
Consumer installment loans	—	—	—	—
Commercial credit products	1	1	3	2
Total	$211	$165	$560	$417

Our allowance for loan losses on TDRs is generally measured based on the difference between the recorded loan receivable and the present value of the expected future cash flows, discounted at the original effective interest rate of the loan. Interest income from loans accounted for as TDRs is accounted for in the same manner as other accruing loans.

The following table provides information about loans classified as TDRs and specific reserves. We do not evaluate credit card loans for impairment on an individual basis but instead estimate an allowance for loan losses on a collective basis. As a result, there are no impaired loans for which there is no allowance.

At September 30, 2017 ($ in millions)	Total recorded investment	Related allowance	Net recorded investment	Unpaid principal balance
Credit cards	$ 981	$ (388)	$ 593	$ 872
Consumer installment loans	—	—	—	—
Commercial credit products	5	(2)	3	5
Total	$ 986	$ (390)	$ 596	$ 877

At December 31, 2016 ($ in millions)	Total recorded investment	Related allowance	Net recorded investment	Unpaid principal balance
Credit cards	$ 862	$ (321)	$ 541	$ 761
Consumer installment loans	—	—	—	—
Commercial credit products	6	(3)	3	5
Total	$ 868	$ (324)	$ 544	$ 766

Financial Effects of TDRs

As part of our loan modifications for borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following table presents the types and financial effects of loans modified and accounted for as TDRs during the periods presented:

Three months ended September 30,	2017			2016		
($ in millions)	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment
Credit cards	$ 13	$ 57	$ 954	$ 12	$ 45	$ 793
Consumer installment loans	—	—	—	—	—	—
Commercial credit products	—	1	5	—	1	6
Total	$ 13	$ 58	$ 959	$ 12	$ 46	$ 799

Nine months ended September 30,	2017			2016		
($ in millions)	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment	Interest income recognized during period when loans were impaired	Interest income that would have been recorded with original terms	Average recorded investment
Credit cards	$ 36	$ 161	$ 916	$ 36	$ 130	$ 778
Consumer installment loans	—	—	—	—	—	—
Commercial credit products	—	1	6	—	1	6
Total	$ 36	$ 162	$ 922	$ 36	$ 131	$ 784

Payment Defaults

The following table presents the type, number and amount of loans accounted for as TDRs that enrolled in a modification plan within the previous 12 months from the applicable balance sheet date and experienced a payment default during the periods presented. A customer defaults from a modification program after two consecutive missed payments.

Three months ended September 30,	2017		2016	
($ in millions)	Accounts defaulted	Loans defaulted	Accounts defaulted	Loans defaulted
Credit cards	19,466	$ 41	14,779	$ 30
Consumer installment loans	—	—	—	—
Commercial credit products	58	—	34	—
Total	19,524	$ 41	14,813	$ 30

Nine months ended September 30,	2017		2016	
($ in millions)	Accounts defaulted	Loans defaulted	Accounts defaulted	Loans defaulted
Credit cards	42,569	$ 90	29,982	$ 61
Consumer installment loans	—	—	—	—
Commercial credit products	124	1	82	—
Total	42,693	$ 91	30,064	$ 61

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Credit Quality Indicators

Our loan receivables portfolio includes both secured and unsecured loans. Secured loan receivables are largely comprised of consumer installment loans secured by equipment. Unsecured loan receivables are largely comprised of our open-ended consumer and commercial revolving credit card loans. As part of our credit risk management activities, on an ongoing basis, we assess overall credit quality by reviewing information related to the performance of a customer's account with us, as well as information from credit bureaus, such as a Fair Isaac Corporation ("FICO") or other credit scores, relating to the customer's broader credit performance. FICO scores are generally obtained at origination of the account and are refreshed, at a minimum quarterly, but could be as often as weekly, to assist in predicting customer behavior. We categorize these credit scores into the following three credit score categories: (i) 661 or higher, which are considered the strongest credits; (ii) 601 to 660, considered moderate credit risk; and (iii) 600 or less, which are considered weaker credits. There are certain customer accounts for which a FICO score is not available where we use alternative sources to assess their credit and predict behavior. The following table provides the most recent FICO scores available for our customers at September 30, 2017 and December 31, 2016, respectively, as a percentage of each class of loan receivable. The table below excludes 0.7%, 0.7% and 0.8% of our total loan receivables balance at September 30, 2017, December 31, 2016 and September 30, 2016, respectively, which represents those customer accounts for which a FICO score is not available.

	September 30, 2017			December 31, 2016			September 30, 2016		
	661 or higher	601 to 660	600 or less	661 or higher	601 to 660	600 or less	661 or higher	601 to 660	600 or less
Credit cards	73 %	19 %	8 %	73 %	20 %	7 %	73 %	20 %	7 %
Consumer installment loans	79 %	15 %	6 %	78 %	16 %	6 %	78 %	16 %	6 %
Commercial credit products	88 %	7 %	5 %	87 %	9 %	4 %	87 %	8 %	5 %

Unfunded Lending Commitments

We manage the potential risk in credit commitments by limiting the total amount of credit, both by individual customer and in total, by monitoring the size and maturity of our portfolios and by applying the same credit standards for all of our credit products. Unused credit card lines available to our customers totaled approximately $366 billion and $348 billion at September 30, 2017 and December 31, 2016, respectively. While these amounts represented the total available unused credit card lines, we have not experienced and do not anticipate that all of our customers will access their entire available line at any given point in time.

Interest Income by Product

The following table provides additional information about our interest and fees on loans from our loan receivables, including held for sale:

	Three months ended September 30,		Nine months ended September 30,	
($ in millions)	2017	2016	2017	2016
Credit cards	$4,111	$3,705	$11,780	$10,573
Consumer installment loans	35	31	101	86
Commercial credit products	36	35	104	103
Other	—	—	1	1
Total	$4,182	$3,771	$11,986	$10,763

NOTE 5. VARIABLE INTEREST ENTITIES

We use VIEs to securitize loans and arrange asset-backed financing in the ordinary course of business. Investors in these entities only have recourse to the assets owned by the entity and not to our general credit. We do not have implicit support arrangements with any VIE and we did not provide non-contractual support for previously transferred loan receivables to any VIE in the three and nine months ended September 30, 2017 and 2016. Our VIEs are able to accept new loan receivables and arrange new asset-backed financings, consistent with the requirements and limitations on such activities placed on the VIE by existing investors. Once an account has been designated to a VIE, the contractual arrangements we have require all existing and future loans originated under such account to be transferred to the VIE. The amount of loan receivables held by our VIEs in excess of the minimum amount required under the asset-backed financing arrangements with investors may be removed by us under random removal of accounts provisions. All loan receivables held by a VIE are subject to claims of third-party investors.

In evaluating whether we have the power to direct the activities of a VIE that most significantly impact its economic performance, we consider the purpose for which the VIE was created, the importance of each of the activities in which it is engaged and our decision-making role, if any, in those activities that significantly determine the entity's economic performance as compared to other economic interest holders. This evaluation requires consideration of all facts and circumstances relevant to decision-making that affects the entity's future performance and the exercise of professional judgment in deciding which decision-making rights are most important.

In determining whether we have the right to receive benefits or the obligation to absorb losses that could potentially be significant to a VIE, we evaluate all of our economic interests in the entity, regardless of form (debt, equity, management and servicing fees, and other contractual arrangements). This evaluation considers all relevant factors of the entity's design, including: the entity's capital structure, contractual rights to earnings or losses, subordination of our interests relative to those of other investors, as well as any other contractual arrangements that might exist that could have the potential to be economically significant. The evaluation of each of these factors in reaching a conclusion about the potential significance of our economic interests is a matter that requires the exercise of professional judgment.

We consolidate VIEs where we have the power to direct the activities that significantly affect the VIEs' economic performance, typically because of our role as either servicer or administrator for the VIEs. The power to direct exists because of our role in the design and conduct of the servicing of the VIEs' assets as well as directing certain affairs of the VIEs, including determining whether and on what terms debt of the VIEs will be issued.

The loan receivables in these entities have risks and characteristics similar to our other financing receivables and were underwritten to the same standard. Accordingly, the performance of these assets has been similar to our other comparable loan receivables, and the blended performance of the pools of receivables in these entities reflects the eligibility criteria that we apply to determine which receivables are selected for transfer. Contractually, the cash flows from these financing receivables must first be used to pay third-party debt holders, as well as other expenses of the entity. Excess cash flows, if any, are available to us. The creditors of these entities have no claim on our other assets.

The table below summarizes the assets and liabilities of our consolidated securitization VIEs described above.

($ in millions)	September 30, 2017	December 31, 2016
Assets		
Loan receivables, net[a]	$ 21,667	$ 22,892
Other assets[b]	56	107
Total	$ 21,723	$ 22,999
Liabilities		
Borrowings	$ 11,891	$ 12,388
Other liabilities	20	21
Total	$ 11,911	$ 12,409

(a) Includes $1.3 billion and $1.1 billion of related allowance for loan losses resulting in gross restricted loans of $22.9 billion and $24.0 billion at September 30, 2017 and December 31, 2016, respectively.

(b) Includes $51 million and $100 million of segregated funds held by the VIEs at September 30, 2017 and December 31, 2016, respectively, which are classified as restricted cash and equivalents and included as a component of other assets in our Condensed Consolidated Statements of Financial Position.

The balances presented above are net of intercompany balances and transactions that are eliminated in our condensed consolidated financial statements.

We provide servicing for all of our consolidated VIEs. Collections are required to be placed into segregated accounts owned by each VIE in amounts that meet contractually specified minimum levels. These segregated funds are invested in cash and cash equivalents and are restricted as to their use, principally to pay maturing principal and interest on debt and the related servicing fees. Collections above these minimum levels are remitted to us on a daily basis.

Income (principally, interest and fees on loans) earned by our consolidated VIEs was $1.0 billion and $1.1 billion for the three months ended September 30, 2017 and 2016, respectively. Related expenses consisted primarily of provision for loan losses of $303 million and $212 million for the three months ended September 30, 2017 and 2016, respectively, and interest expense of $65 million and $63 million for the three months ended September 30, 2017 and 2016, respectively.

Income (principally, interest and fees on loans) earned by our consolidated VIEs was $3.1 billion and $3.4 billion for the nine months ended September 30, 2017 and 2016, respectively. Related expenses consisted primarily of provision for loan losses of $904 million and $729 million for the nine months ended September 30, 2017 and 2016, respectively, and interest expense of $193 million and $180 million for the nine months ended September 30, 2017 and 2016, respectively.

NOTE 6. INTANGIBLE ASSETS

($ in millions)	September 30, 2017			December 31, 2016		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer-related	$1,232	$ (648)	$584	$1,069	$ (560)	$509
Capitalized software	357	(169)	188	318	(115)	203
Total	$1,589	$ (817)	$772	$1,387	$ (675)	$712

During the nine months ended September 30, 2017, we recorded additions to intangible assets subject to amortization of $215 million, primarily related to customer-related intangible assets, as well as capitalized software expenditures.

Customer-related intangible assets primarily relate to retail partner contract acquisitions and extensions, as well as purchased credit card relationships. During the nine months ended September 30, 2017 and 2016, we recorded additions to customer-related intangible assets subject to amortization of $175 million and $81 million, respectively, primarily related to payments made to acquire and extend certain retail partner relationships. These additions had a weighted average amortizable life of 10 years and 7 years for the nine months ended September 30, 2017 and 2016, respectively.

Amortization expense related to retail partner contracts was $28 million and $26 million for the three months ended September 30, 2017 and 2016, respectively, and $83 million and $76 million for the nine months ended September 30, 2017 and 2016, respectively and is included as a component of marketing and business development expense in our Condensed Consolidated Statements of Earnings. All other amortization expense was $25 million and $18 million for the three months ended September 30, 2017 and 2016, respectively and $63 million and $55 million for the nine months ended September 30, 2017 and 2016, respectively and is included as a component of other expense in our Condensed Consolidated Statements of Earnings.

NOTE 7. DEPOSITS

	September 30, 2017		December 31, 2016	
($ in millions)	Amount	Average rate[(a)]	Amount	Average rate[(a)]
Interest-bearing deposits	$54,232	1.6 %	$51,896	1.5 %
Non-interest-bearing deposits	222	—	159	—
Total deposits	$54,454		$52,055	

(a) Based on interest expense for the nine months ended September 30, 2017 and the year ended December 31, 2016 and average deposits balances.

At September 30, 2017 and December 31, 2016, interest-bearing deposits included $15.8 billion and $14.2 billion of certificates of deposit of $100,000 or more, respectively. Of the total certificates of deposit of $100,000 or more, $5.1 billion and $4.4 billion were certificates of deposit of $250,000 or more at September 30, 2017 and December 31, 2016, respectively.

At September 30, 2017, our interest-bearing time deposits maturing for the remainder of 2017 and over the next four years and thereafter were as follows:

($ in millions)	2017	2018	2019	2020	2021	Thereafter
Deposits	$2,956	$15,665	$5,758	$3,212	$2,288	$ 3,795

The above maturity table excludes $17.6 billion of demand deposits with no defined maturity, of which $15.9 billion are savings accounts. In addition, at September 30, 2017, we had $3.0 billion of broker network deposit sweeps procured through a program arranger who channels brokerage account deposits to us. Unless extended, the contracts associated with these broker network deposit sweeps will terminate between 2019 and 2021.

NOTE 8. BORROWINGS

($ in millions)	September 30, 2017				December 31, 2016
	Maturity date	Interest Rate	Weighted average interest rate	Outstanding Amount[a]	Outstanding Amount[a]
Borrowings of consolidated securitization entities:					
Fixed securitized borrowings	2017 - 2021	1.35% - 2.64%	1.90 %	$ 8,241	$ 8,731
Floating securitized borrowings	2018 - 2020	1.95% - 2.16%	2.03 %	3,650	3,657
Total borrowings of consolidated securitization entities			1.94 %	11,891	12,388
Synchrony Financial senior unsecured notes:					
Fixed senior unsecured notes	2019 - 2026	2.60% - 4.50%	3.53 %	6,317	6,811
Floating senior unsecured notes	2017 - 2020	2.54% - 2.72%	2.67 %	949	948
Synchrony Bank senior unsecured notes:					
Fixed senior unsecured notes	2022	3.00 %	3.00 %	742	—
Total senior unsecured notes			3.38 %	8,008	7,759
Total borrowings				$ 19,899	$ 20,147

(a) The amounts presented above for outstanding borrowings include unamortized debt premiums, discounts and issuance cost.

Debt Maturities

The following table summarizes the maturities of the principal amount of our borrowings of consolidated securitization entities and senior unsecured notes for the remainder of 2017 and over the next four years and thereafter:

($ in millions)	2017	2018	2019	2020	2021	Thereafter
Borrowings	$1,526	$2,232	$7,227	$4,058	$1,408	$ 3,500

Third-Party Debt

Senior Unsecured Notes

On June 12, 2017, the Bank issued a total of $750 million principal amount of 3.000% senior unsecured notes due 2022.

Credit Facilities

As additional sources of liquidity, we have undrawn committed capacity under credit facilities, primarily related to our securitization programs.

At September 30, 2017, we had an aggregate of $5.1 billion of undrawn committed capacity under our securitization financings, subject to customary borrowing conditions, from private lenders under our two existing securitization programs, and an aggregate of $0.5 billion of undrawn committed capacity under our unsecured revolving credit facility with private lenders.

NOTE 9. FAIR VALUE MEASUREMENTS

For a description of how we estimate fair value, see Note 2. Basis of Presentation and Summary of Significant Accounting Policies in our 2016 annual consolidated and combined financial statements in our 2016 Form 10-K.

The following tables present our assets and liabilities measured at fair value on a recurring basis.

Recurring Fair Value Measurements

The following tables present our assets measured at fair value on a recurring basis.

At September 30, 2017 ($ in millions)	Level 1	Level 2	Level 3	Total
Assets				
Investment securities				
Debt				
U.S. Government and Federal Agency	$ —	$1,725	$ —	$1,725
State and municipal	—	—	44	44
Residential mortgage-backed	—	1,302	—	1,302
Asset-backed	—	231	—	231
Equity	15	—	—	15
Total	$ 15	$3,258	$ 44	$3,317
At December 31, 2016 ($ in millions)				
Assets				
Investment securities				
Debt				
U.S. Government and Federal Agency	$ —	$3,676	$ —	$3,676
State and municipal	—	—	46	46
Residential mortgage-backed	—	1,373	—	1,373
Equity	15	—	—	15
Total	$ 15	$5,049	$ 46	$5,110

For the nine months ended September 30, 2017, there were no securities transferred between Level 1 and Level 2 or between Level 2 and Level 3. At September 30, 2017 and December 31, 2016, we did not have any significant liabilities measured at fair value on a recurring basis.

Our Level 3 recurring fair value measurements primarily relate to state and municipal debt instruments which are valued using non-binding broker quotes or other third-party sources. For a description of our process to evaluate third-party pricing servicers, see Note 2. Basis of Presentation and Summary of Significant Accounting Policies in our 2016 annual consolidated and combined financial statements in our 2016 Form 10-K. Our state and municipal debt securities are classified as available-for-sale with changes in fair value included in accumulated other comprehensive income.

The following table presents the changes in our Level 3 debt instruments that are measured on a recurring basis for the three and nine months ended September 30, 2017 and 2016.

Changes in Level 3 Instruments

($ in millions)	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Balance at beginning of period	$44	$49	$46	$49
Net realized/unrealized gains (losses)	1	2	1	4
Purchases	1	—	2	—
Settlements	(2)	(2)	(5)	(4)
Balance at end of period	$44	$49	$44	$49

Non-Recurring Fair Value Measurements

We hold certain assets that have been measured at fair value on a non-recurring basis at September 30, 2017 and 2016. These assets can include repossessed assets and cost method investments that are written down to fair value when they are impaired, as well as loan receivables held for sale. Assets that are written down to fair value when impaired are not subsequently adjusted to fair value unless further impairment occurs. The assets held by us that were measured at fair value on a non-recurring basis and the effects of the remeasurement to fair value were not material for all periods presented.

Financial Assets and Financial Liabilities Carried at Other than Fair Value

At September 30, 2017 ($ in millions)	Carrying value	Corresponding fair value amount Total	Level 1	Level 2	Level 3
Financial Assets					
Financial assets for which carrying values equal or approximate fair value:					
Cash and equivalents[a]	$13,915	$13,915	$13,315	$600	$—
Other assets[a][b]	$173	$173	$173	$—	$—
Financial assets carried at other than fair value:					
Loan receivables, net[c]	$71,567	$80,248	$—	$—	$80,248
Financial Liabilities					
Financial liabilities carried at other than fair value:					
Deposits	$54,454	$54,877	$—	$54,877	$—
Borrowings of consolidated securitization entities	$11,891	$11,904	$—	$8,250	$3,654
Senior unsecured notes	$8,008	$8,197	$—	$8,197	$—

At December 31, 2016 ($ in millions)	Carrying value	Corresponding fair value amount Total	Level 1	Level 2	Level 3
Financial Assets					
Financial assets for which carrying values equal or approximate fair value:					
Cash and equivalents[a]	$9,321	$9,321	$9,321	$—	$—
Other assets[a][b]	$347	$347	$347	$—	$—
Financial assets carried at other than fair value:					
Loan receivables, net[c]	$71,993	$79,566	$—	$—	$79,566
Financial Liabilities					
Financial liabilities carried at other than fair value:					
Deposits	$52,055	$52,507	$—	$52,507	$—
Borrowings of consolidated securitization entities	$12,388	$12,402	$—	$9,191	$3,211
Senior unsecured notes	$7,759	$7,875	$—	$7,875	$—

(a) For cash and equivalents and restricted cash and equivalents, carrying value approximates fair value due to the liquid nature and short maturity of these instruments.

(b) This balance relates to restricted cash and equivalents, which is included in other assets.

(c) Under certain retail partner program agreements, the expected sales proceeds related to the sale of their credit card portfolio may be limited to the amounts owed by our customers, which may be less than the fair value indicated above.

NOTE 10. REGULATORY AND CAPITAL ADEQUACY

As a savings and loan holding company and, as of June 2017, a financial holding company, we are subject to regulation, supervision and examination by the Federal Reserve Board and subject to the capital requirements as prescribed by Basel III capital rules and the requirements of the Dodd-Frank Act. The Bank is a federally chartered savings association. As such, the Bank is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency of the U.S. Treasury (the "OCC"), which is its primary regulator, and by the Consumer Financial Protection Bureau ("CFPB"). In addition, the Bank, as an insured depository institution, is supervised by the Federal Deposit Insurance Corporation.

Failure to meet minimum capital requirements can initiate certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a material adverse effect on our consolidated financial statements. Under capital adequacy guidelines, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require us and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined).

For Synchrony Financial to be a well-capitalized savings and loan holding company, the Bank must be well-capitalized and Synchrony Financial must not be subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the Federal Reserve Board to meet and maintain a specific capital level for any capital measure.

At September 30, 2017 and December 31, 2016, Synchrony Financial met all applicable requirements to be deemed well-capitalized pursuant to Federal Reserve Board regulations. At September 30, 2017 and December 31, 2016, the Bank also met all applicable requirements to be deemed well-capitalized pursuant to OCC regulations and for purposes of the Federal Deposit Insurance Act. There are no conditions or events subsequent to September 30, 2017 that management believes have changed the Company's or the Bank's capital category.

The actual capital amounts, ratios and the applicable required minimums of the Company and the Bank are as follows:

Synchrony Financial

At September 30, 2017 ($ in millions)	Actual			Minimum for capital adequacy purposes		
	Amount	Ratio[(a)]		Amount	Ratio	
Total risk-based capital	$14,126	18.7	%	$6,058	8.0	%
Tier 1 risk-based capital	$13,125	17.3	%	$4,544	6.0	%
Tier 1 leverage	$13,125	14.6	%	$3,593	4.0	%
Common equity Tier 1 Capital	$13,125	17.3	%	$3,408	4.5	%

At December 31, 2016 ($ in millions)	Actual			Minimum for capital adequacy purposes		
	Amount	Ratio[(a)]		Amount	Ratio	
Total risk-based capital	$14,129	18.5	%	$6,094	8.0	%
Tier 1 risk-based capital	$13,135	17.2	%	$4,571	6.0	%
Tier 1 leverage	$13,135	15.0	%	$3,508	4.0	%
Common equity Tier 1 Capital	$13,135	17.2	%	$3,428	4.5	%

Synchrony Bank

At September 30, 2017 ($ in millions)	Actual		Minimum for capital adequacy purposes		Minimum to be well-capitalized under prompt corrective action provisions	
	Amount	Ratio[a]	Amount	Ratio[b]	Amount	Ratio
Total risk-based capital	$10,364	16.7 %	$4,968	8.0 %	$6,210	10.0 %
Tier 1 risk-based capital	$9,540	15.4 %	$3,726	6.0 %	$4,968	8.0 %
Tier 1 leverage	$9,540	13.0 %	$2,929	4.0 %	$3,661	5.0 %
Common equity Tier I capital	$9,540	15.4 %	$2,795	4.5 %	$4,037	6.5 %

At December 31, 2016 ($ in millions)	Actual		Minimum for capital adequacy purposes		Minimum to be well-capitalized under prompt corrective action provisions	
	Amount	Ratio[a]	Amount	Ratio[b]	Amount	Ratio
Total risk-based capital	$10,101	16.7 %	$4,825	8.0 %	$6,031	10.0 %
Tier 1 risk-based capital	$9,312	15.4 %	$3,619	6.0 %	$4,825	8.0 %
Tier 1 leverage	$9,312	13.2 %	$2,816	4.0 %	$3,520	5.0 %
Common equity Tier I capital	$9,312	15.4 %	$2,714	4.5 %	$3,920	6.5 %

(a) Capital ratios are calculated based on the Basel III Standardized Approach rules, subject to applicable transition provisions, at September 30, 2017 and December 31, 2016.

(b) At September 30, 2017 and at December 31, 2016, Synchrony Financial and the Bank also must maintain a capital conservation buffer of common equity Tier 1 capital in excess of minimum risk-based capital ratios by at least 1.25 percentage points and 0.625 percentage points, respectively, to avoid limits on capital distributions and certain discretionary bonus payments to executive officers and similar employees.

The Bank may pay dividends on its stock, with consent or non-objection from the OCC and the Federal Reserve Board, among other things, if its regulatory capital would not thereby be reduced below the applicable regulatory capital requirements.

NOTE 11. EARNINGS PER SHARE

Basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the assumed conversion of all dilutive securities.

The following table presents the calculation of basic and diluted earnings per share:

	Three months ended September 30,		Nine months ended September 30,	
(in millions, except per share data)	2017	2016	2017	2016
Net earnings	$555	$604	$1,550	$1,675
Weighted average common shares outstanding, basic	787.3	828.4	801.3	832.1
Effect of dilutive securities	3.6	2.2	3.7	2.0

Weighted average common shares outstanding, dilutive	790.9	830.6	805.0	834.1
Earnings per basic common share	$0.70	$0.73	$1.93	$2.01
Earnings per diluted common share	$0.70	$0.73	$1.93	$2.01

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We have issued certain stock based awards under the Synchrony Financial 2014 Long-Term Incentive Plan. A total of 4 million and 3 million shares for the three months ended September 30, 2017 and 2016, respectively, and 3 million shares for both the nine months ended September 30, 2017 and 2016, related to these awards, were considered anti-dilutive and therefore were excluded from the computation of diluted earnings per share.

NOTE 12. INCOME TAXES

We now file consolidated U.S. federal and state income tax returns separate and apart from GE. For periods up to and including the date of Separation, we were included in the consolidated U.S. federal and state income tax returns of GE, where applicable, but also filed certain separate state and foreign income tax returns. The tax provision is presented on a separate company basis as if we were a separate filer for tax purposes for all periods presented. The effects of tax adjustments and settlements from taxing authorities are presented in our condensed consolidated financial statements in the period in which they occur. Our current obligations for taxes are settled with the relevant tax authority, or GE, as applicable, on an estimated basis and adjusted in later periods as appropriate and are reflected in our consolidated financial statements in the periods in which those settlements occur. We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. In calculating the provision for interim period income taxes, in accordance with Accounting Standards Codification 740, Income Taxes, we estimate the effective tax rate expected to be applicable for the full fiscal year and apply that estimated annual effective tax rate to year-to-date ordinary income. Adjustments to tax expense are made for year-to-date discrete items. See “Management's Discussion and Analysis—Critical Accounting Estimates” in our 2016 Form 10-K, for a discussion of the significant judgments and estimates related to income taxes.

For periods prior to Separation, we are under continuous examination by the Internal Revenue Service (“IRS”) and the tax authorities of various states as part of their audit of GE’s tax returns. The IRS is currently auditing GE's consolidated U.S. income tax returns for 2012 to 2015. We are under examination in various states going back to 2008 as part of their audit of GE’s tax returns. We are not currently under audit with respect to any post-Separation periods. We believe that there are no issues or claims that are likely to significantly impact our results of operations, financial position or cash flows. We further believe that we have made adequate provision for all income tax uncertainties that could result from such examinations.

Tax Sharing and Separation Agreement

In connection with our initial public offering in August 2014 (“IPO”), we entered into a Tax Sharing and Separation Agreement (“TSSA”), which governs certain Separation-related tax matters between the Company and GE following the IPO. The TSSA governs the allocation of the responsibilities for the taxes of the GE group between GE and the Company. The TSSA also allocates rights, obligations and responsibilities in connection with certain administrative matters relating to the preparation of tax returns and control of tax audits and other proceedings relating to taxes. See Note 14. Income Taxes to our 2016 annual consolidated and combined financial statements in our 2016 Form 10-K for additional information on the TSSA.

Unrecognized Tax Benefits

($ in millions)	September 30, 2017	December 31, 2016
Unrecognized tax benefits, excluding related interest expense and penalties	$ 166	$ 150
Portion that, if recognized, would reduce tax expense and effective tax rate[(a)]	111	99
Accrued interest on unrecognized tax benefits	11	6
Accrued penalties on unrecognized tax benefits	—	—

(a) Includes gross state and local unrecognized tax benefits net of the effects of associated U.S. federal income taxes. Excludes amounts attributable to any related valuation allowances resulting from associated increases in deferred tax assets.

We compute our unrecognized tax benefits on a separate return basis. For unrecognized tax benefits associated with periods prior to 2014, we will settle our liabilities, as required, in accordance with the TSSA. The amount of unrecognized tax benefits that may be resolved in the next twelve months is not expected to be material to our results of operations.

NOTE 13. LEGAL PROCEEDINGS AND REGULATORY MATTERS

In the normal course of business, from time to time, we have been named as a defendant in various legal proceedings, including arbitrations, class actions and other litigation, arising in connection with our business activities. Certain of the legal actions include claims for substantial compensatory and/or punitive damages, or claims for indeterminate amounts of damages. We are also involved, from time to time, in reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our business (collectively, “regulatory matters”), which could subject us to significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. We contest liability and/or the amount of damages as appropriate in each pending matter. In accordance with applicable accounting guidance, we establish an accrued liability for legal and regulatory matters when those matters present loss contingencies which are both probable and reasonably estimable.

Legal proceedings and regulatory matters are subject to many uncertain factors that generally cannot be predicted with assurance, and we may be exposed to losses in excess of any amounts accrued.

For some matters, we are able to determine that an estimated loss, while not probable, is reasonably possible. For other matters, including those that have not yet progressed through discovery and/or where important factual information and legal issues are unresolved, we are unable to make such an estimate. We currently estimate that the reasonably possible losses for legal proceedings and regulatory matters, whether in excess of a related accrued liability or where there is no accrued liability, and for which we are able to estimate a possible loss, are immaterial. This represents management’s estimate of possible loss with respect to these matters and is based on currently available information. This estimate of possible loss does not represent our maximum loss exposure. The legal proceedings and regulatory matters underlying the estimate will change from time to time and actual results may vary significantly from current estimates.

Our estimate of reasonably possible losses involves significant judgment, given the varying stages of the proceedings, the existence of numerous yet to be resolved issues, the breadth of the claims (often spanning multiple years), unspecified damages and/or the novelty of the legal issues presented. Based on our current knowledge, we do not believe that we are a party to any pending legal proceeding or regulatory matters that would have a material adverse effect on our condensed consolidated financial condition or liquidity. However, in light of the uncertainties involved in such matters, the ultimate outcome of a particular matter could be material to our operating results for a particular period depending on, among other factors, the size of the loss or liability imposed and the level of our earnings for that period, and could adversely affect our business and reputation.

Below is a description of certain of our regulatory matters and legal proceedings.

Regulatory Matters

On October 30, 2014, the United States Trustee, which is part of the Department of Justice, filed an application in In re Nyree Belton, a Chapter 7 bankruptcy case pending in the U.S. Bankruptcy Court for the Southern District of New York for orders authorizing discovery of the Bank pursuant to Rule 2004 of the Federal Rules of Bankruptcy Procedure, related to an investigation of the Bank's credit reporting. The discovery, which is ongoing, concerns allegations made in Belton et al. v. GE Capital Consumer Lending, a putative class action adversary proceeding pending in the same Bankruptcy Court. In the Belton adversary proceeding, which was filed on April 30, 2014, plaintiff alleges that the Bank violates the discharge injunction under Section 524(a)(2) of the Bankruptcy Code by attempting to collect discharged debts and by failing to update and correct credit information to credit reporting agencies to show that such debts are no longer due and owing because they have been discharged in bankruptcy. Plaintiff seeks declaratory judgment, injunctive relief and an unspecified amount of damages. On December 15, 2014, the Bankruptcy Court entered an order staying the adversary proceeding pending an appeal to the District Court of the Bankruptcy Court's order denying the Bank's motion to compel arbitration. On October 14, 2015, the District Court reversed the Bankruptcy Court and on November 4, 2015, the Bankruptcy Court granted the Bank's motion to compel arbitration.

On October 15, 2015, the Bank received a Civil Investigative Demand from the CFPB seeking information related to the Bank's credit bureau reporting with respect to sold accounts. The information sought by the CFPB generally relates to the allegations made in Belton et al. v. GE Capital Consumer Lending. On May 9, 2016, the Bank received a NORA (Notice of Opportunity to Respond and Advise) letter from the CFPB indicating that the CFPB Office of Enforcement is considering whether to recommend that the CFPB take legal action relating to this matter.

On May 9, 2017, the Bank received a Civil Investigative Demand from the CFPB seeking information related to the marketing and servicing of deferred interest promotions.

Other Matters

The Bank or the Company is, or has been, defending a number of putative class actions alleging claims under the federal Telephone Consumer Protection Act ("TCPA") as a result of phone calls made by the Bank. The complaints generally have alleged that the Bank or the Company placed calls to consumers by an automated telephone dialing system or using a pre-recorded message or automated voice without their consent and seek up to $1,500 for each violation, without specifying an aggregate amount. Campbell et al. v. Synchrony Bank was filed on January 25, 2017 in the U.S. District Court for the Northern District of New York. The original complaint named only J.C. Penney Company, Inc. and J.C. Penney Corporation, Inc. as the defendants but was amended on April 7, 2017 to replace those defendants with the Bank. Neal et al. v. Wal-Mart Stores, Inc. and Synchrony Bank, for which the Bank is indemnifying Wal-Mart, was filed on January 17, 2017 in the U.S. District Court for the Western District of North Carolina. The original complaint named only Wal-Mart Stores, Inc. as a defendant but was amended on March 30, 2017 to add Synchrony Bank as an additional defendant.

In addition to the TCPA class action lawsuits related to phone calls, the Company is a defendant in a putative class action lawsuit alleging claims under the TCPA relating to facsimiles. In Michael W. Kincaid, DDS et al. v. Synchrony Financial, plaintiff alleges that the Company violated the TCPA by sending fax advertisements without consent and without required notices, and seeks up to $1,500 for each violation. The amount of damages sought in the aggregate is unspecified. The original complaint was filed in U.S. District Court for the Northern District of Illinois on January 20, 2016. On August 11, 2016, the Court granted the Company's motion to dismiss based on the lack of personal jurisdiction. On August 15, 2016, the plaintiff re-filed the case in the Southern District of Ohio.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, correlations or other market factors will result in losses for a position or portfolio. We are exposed to market risk primarily from changes in interest rates.

We borrow money from a variety of depositors and institutions in order to provide loans to our customers. Changes in market interest rates cause our net interest income to increase or decrease, as some of our assets and liabilities carry interest rates that fluctuate with market benchmarks. The interest rate benchmark for our floating rate assets is generally the prime rate, and the interest rate benchmark for our floating rate liabilities is generally either LIBOR or the federal funds rate. The prime rate and the LIBOR or federal funds rate could reset at different times or could diverge, leading to mismatches in the interest rates on our floating rate assets and floating rate liabilities.

As of September 30, 2017, assuming an immediate 100 basis point increase in the interest rates affecting all interest rate sensitive assets and liabilities, we estimate that net interest income over the following 12-month period would increase by approximately $155 million. This estimate projects net interest income over the following 12-month period and takes into consideration future growth and balance sheet composition.

For a more detailed discussion of our exposure to market risk, refer to “Management's Discussion and Analysis—Quantitative and Qualitative Disclosures about Market Risk” in our 2016 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Under the direction of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures, and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2017.

No change in internal control over financial reporting occurred during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of legal proceedings, see Note 13. Legal Proceedings and Regulatory Matters to our condensed consolidated financial statements in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in our 2016 Form 10-K under the heading "Risk Factors".

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth information regarding purchases of our common stock primarily related to our share repurchase program that were made by us or on our behalf during the three months ended September 30, 2017.

($ in millions, except per share data)	Total Number of Shares Purchased[(a)]	Average Price Paid Per Share[(b)]	Total Number of Shares Purchased as Part of Publicly Announced Programs[(c)]	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Programs[(b)]
July 1 - 31, 2017	6,543,656	$ 30.52	6,520,284	$ 1,241.0
August 1 - 31, 2017	6,321,552	30.22	6,321,552	1,050.0
September 1 - 30, 2017	34,322	29.02	—	1,050.0
Total	12,899,530	$ 30.37	12,841,836	$ 1,050.0

(a) Primarily represents repurchases of shares of common stock under our publicly announced share repurchase programs of up to $1.64 billion of our outstanding shares of common stock through June 30, 2018 (the "2017 Share Repurchase Program"). Also includes 23,372 shares, 0 shares and 34,322 shares withheld in July, August and September, respectively, to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock awards or upon the exercise of stock options.

(b) Amounts exclude commission costs.

(c) On May 18, 2017, our Board of Directors approved the 2017 Share Repurchase Program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See “Exhibit Index” for documents filed herewith and incorporated herein by reference.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Synchrony Financial
(Registrant)

October 26, 2017	/s/ Brian D. Doubles
	Brian D. Doubles
Date	Executive Vice President and Chief Financial Officer
	(Duly Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
12.1	Statement of Ratio of Earnings to Fixed Charges
31(a)	Certification Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended
31(b)	Certification Pursuant to Rules 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as Amended
32	Certification Pursuant to 18 U.S.C. Section 1350
101	The following materials from Synchrony Financial's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2017 and 2016, (ii) Condensed Consolidated Statements of Comprehensive Income for the three months and nine months ended September 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Financial Position at September 30, 2017 and December 31, 2016, (iv) Condensed Consolidated Statements of Changes in Equity for the nine months ended September 30, 2017 and 2016, (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and (vi) Notes to Condensed Consolidated Financial Statements.

(*) Pursuant to Item 601(4)(iii) of Regulation S-K, the Company is not required to file any instrument with respect to long-term debt not being registered if the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish a copy of any such instrument to the SEC upon request.

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