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招商銀行股份有限公司

CHINA MERCHANTS BANK CO., LTD.

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

(H Share Stock Code: 03968)

(Preference Share Stock Code: 04614)

2018 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Merchants Bank Co., Ltd. (the “**Company**”) hereby announces the unaudited results of the Company and its subsidiaries for the six months ended 30 June 2018. This announcement, containing the full text of the 2018 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results. Printed version of the Company’s 2018 Interim Report will in due course be delivered to the H-Share Holders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.cmbchina.com).

Publication of Results Announcement

Both the Chinese and English versions of this results announcement are available on the websites of the Company (www.cmbchina.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). In the event of any discrepancies in interpretations between the English version and the Chinese version, the Chinese version shall prevail.

The Company also prepared the Interim Report in Chinese in accordance with the PRC Generally Accepted Accounting Principles, which is available on the websites of the Company (www.cmbchina.com) and Shanghai Stock Exchange (www.sse.com.cn).

By Order of the Board
China Merchants Bank Co., Ltd.
Li Jianhong
Chairman

24 August 2018

As at the date of this announcement, the executive directors of the Company are Tian Huiyu and Li Hao; the non-executive directors of the Company are Li Jianhong, Fu Gangfeng, Sun Yueying, Hong Xiaoyuan, Su Min, Zhang Jian and Wang Daxiong; and the independent non-executive directors of the Company are Leung Kam Chung, Antony, Wong Kwai Lam, Pan Chengwei, Pan Yingli, Zhao Jun and Wong See Hong.

Important Notice

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and senior management of the Company confirm that the contents in this report are true, accurate and complete, and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.
2. The 29th meeting of the Tenth Session of the Board of Directors of the Company was held at its Shekou Training Center on 24 August 2018. The meeting was presided by Li Jianhong, Chairman of the Board of Directors. 14 out of 15 eligible Directors attended the meeting in person. Zhang Jian (Non-Executive Director) was unable to attend the meeting because of other business appointments, and entrusted Su Min (Non-Executive Director) to attend and exercise his voting right at the meeting. 8 Supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the "Company Law of the People's Republic of China" and the "Articles of Association of China Merchants Bank Co., Ltd.".
3. The Company will not implement the profit appropriation nor will it transfer any capital reserve into share capital for the first half of 2018.
4. The Company's 2018 interim financial report is unaudited.
5. Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.
6. Li Jianhong, Chairman of the Company, Tian Huiyu, President and Chief Executive Officer, Li Hao, First Executive Vice President and Chief Financial Officer, and Li Li, the person in charge of the Finance and Accounting Department, hereby make representations in respect of the truthfulness, accuracy and completeness of the financial statements in this report.
7. We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "will", "may", "expect", "try", "strive", "plan", "anticipate", "aim at", and similar expressions to indicate forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that these expectations reflected in these forward-looking statements are reasonable, we give no assurance that these expectations will turn into reality or prove to be correct. Therefore they should not be deemed as the Group's commitments. Investors should not place undue reliance on such statements and should pay attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business, or other performances of the Group, and are subject to a number of uncertainties which may cause substantial differences from those in the actual results.

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Definitions

The Company, the Bank, CMB or China Merchants Bank: China Merchants Bank Co., Ltd.

The Group: China Merchants Bank Co., Ltd. and its subsidiaries

China Banking and Insurance Regulatory Commission or CBIRC: China Banking and Insurance Regulatory Commission

China Securities Regulatory Commission or CSRC: China Securities Regulatory Commission

Hong Kong Stock Exchange or SEHK: The Stock Exchange of Hong Kong Limited

Hong Kong Listing Rules: The Rules Governing the Listing of Securities on the SEHK

Wing Lung Bank or WLB: Wing Lung Bank, Limited

Wing Lung Group: Wing Lung Bank and its subsidiaries

CMB Financial Leasing or CMBFL: CMB Financial Leasing Co., Ltd.

CMB International Capital or CMBIC: CMB International Capital Holdings Corporation Limited

China Merchants Fund or CMFM: China Merchants Fund Management Co., Ltd.

CIGNA & CMB Life Insurance: CIGNA & CMB Life Insurance Co., Ltd.

CM Securities: China Merchants Securities Co., Ltd.

Deloitte Touche Tohmatsu Certified Public Accountants LLP: Deloitte Touche Tohmatsu Certified Public Accountants LLP (Special General Partnership)

SFO: Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Model Code: Model Code for Securities Transactions by Directors of Listed Issuers of Hong Kong Stock Exchange

Significant Risk Warning

The Company has disclosed herein the major risks involved in its operations and the proposed risk management measures. Please refer to Chapter III "Risk Management" for the details in relation to risk management.

Company Information

1.1 Company Profile

1.1.1 Registered Company Name in Chinese: 招商銀行股份有限公司 (Abbreviated Name in Chinese: 招商銀行)
Registered Company Name in English: China Merchants Bank Co., Ltd.

1.1.2 Legal Representative: Li Jianhong
Authorised Representatives: Tian Huiyu, Li Hao
Secretary of the Board of Directors: Wang Liang
Joint Company Secretaries: Wang Liang, Seng Sze Ka Mee Natalia (FCIS, FCS(PE), FHKIoD, FTIHK)
Securities Representative: Huo Jianjun

1.1.3 Registered and Office Address:
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China

1.1.4 Mailing Address:
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: 86755-83198888
Fax: 86755-83195109
E-mail: cmb@cmbchina.com
Website: www.cmbchina.com
Customer service hotline: 95555

1.1.5 Principal Place of Business in Hong Kong:
21st Floor, Bank of America Tower, 12 Harcourt Road, Hong Kong

1.1.6 Share Listing:
A Shares: Shanghai Stock Exchange
Abbreviated Name of A Shares: CMB
Stock Code: 600036
H Shares: SEHK
Abbreviated Name of H Shares: CM BANK
Stock Code: 03968
Domestic Preference Shares: Shanghai Stock Exchange
Abbreviated Name of Shares: Zhao Yin You 1 (招銀優1)
Stock Code: 360028
Offshore Preference Shares: SEHK
Abbreviated Name of Shares: CMB 17USD_PREF
Stock Code: 04614

1.1.7 Domestic Auditor: Deloitte Touche Tohmatsu Certified Public Accountants LLP
Office Address: 30th Floor, Bund Center, 222 Yan'an Road East, Shanghai, China
International Auditor: Deloitte Touche Tohmatsu
Office Address: 35th Floor, One Pacific Place, 88 Queensway, Hong Kong

1.1.8 Legal Advisor as to PRC Law: Jun He Law Offices
Legal Advisor as to Hong Kong Law: Herbert Smith Freehills

1.1.9 Registrar for A Shares: China Securities Depository & Clearing Corporation Ltd., Shanghai Branch
Share Register and Transfer Office as to H Shares: Computershare Hong Kong Investor Services Ltd.
Shops 1712-1716, 17/F, Hopewell Center, 183
Queen's Road East, Wanchai, Hong Kong
Registrar for Domestic Preference Shares: China Securities Depository & Clearing Corporation Ltd.,
Shanghai Branch
Registrar and Transfer Agent for Offshore Preference Shares: The Bank of New York Mellon SA/NV,
Luxembourg Branch

1.1.10 Websites and Newspapers designated by the Company for Information Disclosure:

Mainland China: “China Securities Journal”, “Securities Times”, “Shanghai Securities News”
website of Shanghai Stock Exchange (www.sse.com.cn),
website of the Company (www.cmbchina.com)
Hong Kong: website of SEHK (www.hkex.com.hk),
website of the Company (www.cmbchina.com)
Place of maintenance of interim reports: Office of the Board of Directors of the Company

1.1.11 Sponsor for Domestic Preference Shares:

UBS Securities Co., Ltd.
Office Address: 12th and 15th Floor, Yinglan International Financial Center, No. 7 Financial Street, Xicheng District, Beijing
Sponsor Representative: Liu Wencheng, Luo Yong
China Merchants Securities Co., Ltd.
Office Address: 38-45th Floor, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Sponsor Representatives: Wang Yuting, Wei Jinyang
Continuous Supervision Period: 12 January 2018 to 31 December 2019

1.2 Corporate business overview

Founded in 1987 with its head office in Shenzhen, China, the Company is a national commercial bank with sizeable scale and strength in China. The Company mainly focuses on the market in China. The Company’s distribution network primarily covers China’s major economic centres such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. For details, please refer to the section headed “Distribution Channels” and the section headed “Branches and Representative Offices”. The Company was listed on the Shanghai Stock Exchange in April 2002 and on the SEHK in September 2006.

The Company provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Company, such as “All-in-one Card”, a multi-function debit card, “All-in-one Net”, a comprehensive online banking service platform, credit cards, the “Sunflower Wealth Management” services and private banking services, CMB APP and CMB Life APP, transaction banking services and offshore business services such as global cash management as well as trade financing, asset management, asset custody, investment banking and other services, have been widely recognised by consumers in China.

The Company has established a well-developed strategic management system, formed a well-structured layout of business plans, created fully empowered Fintech and established a scientific and efficient management and organisational system. The leading advantage in retail finance is outstanding and the feature of corporate finance is distinctive, and we always keep the industry-leading service quality. The professional service capabilities have been fully affirmed and widely recognized by the market and customers.

During the reporting period, the Company took the initiative to adapt to the changes in the external environment, and steadily pushed forward the strategic transformation. Centering on the theme of “enhancing customer experience”, we were fully committed to the changes in financial technology during the reporting period. For further details, please refer to Chapter III.

During the reporting period, the Company achieved future elevation in its brand reputation. On the list of *Fortune* Global 500, the Company ranked 213th, up by 3 places from 2017. On the List of Top 1,000 World Banks 2018 released by *The Banker*, the Company ranked 20th in terms of Tier 1 capital, up by 3 places from 2017. In the meantime, the Company was awarded the “Best Retail Bank in Asia-Pacific” by *The Asian Banker* for the first time, ranked first in the Asia-Pacific region in terms of overall ranking and was awarded the “Best Innovation Center for Financial Institutions in China” by *The Asian Banker*.

Summary of Accounting Data and Financial Indicators

2.1 Key accounting data and financial indicators

Operating Results

	January to June 2018 (in millions of RMB)	January to June 2017	Changes + / (-) %
Net operating income ⁽¹⁾		113,032	11.56
Profit before tax		49,942	18.03
Net profit attributable to the Bank's shareholders		39,259	14.00

Per Share

	January to June 2018 (RMB)	January to June 2017	Changes + / (-) %
Basic earnings attributable to ordinary shareholders of the Bank ⁽²⁾		1.56	13.46
Diluted earnings attributable to ordinary shareholders of the Bank		1.56	13.46

Volume Indicators

	30 June 2018 (in millions of RMB)	31 December 2017	Changes + / (-) %
Total assets		6,297,638	3.81
of which: total loans and advances to customers		3,565,044	8.77
Total liabilities		5,814,246	3.77
of which: total deposits from customers		4,064,345	4.76
Total equity attributable to shareholders of the Bank		480,210	4.27
Period-end net assets per share attributable to the ordinary shareholders of the Bank (RMB/Share)		17.69	4.58

Notes: (1) Net operating income is the sum of net interest income, net fee and commission income, other net income as well as share of profits of associates and joint ventures.

(2) The Bank issued non-cumulative preference shares in 2017, but did not pay any dividend on the preference shares during the period. Therefore, when calculating basic earnings per share, return on average equity and net assets per share, no dividend on the preference shares was deducted from "net profit attributable to shareholders of the Bank", while the preference shares were deducted from both the "average equity" and the "net assets".

(3) Since the beginning of the period, the Group has included the profit and loss of the precious metals transaction as a whole under the "net gains from fair value changes" and the "net gains from fair value changes" and "net investment income" of the Income Statement were adjusted for the corresponding period of 2017. The adjustments had no impact on net operating income, net non-interest income and related indicators.

II Summary of Accounting Data and Financial Indicators

2.2 Financial ratios

	January to June 2018	January to December 2017 (%)	January to June 2017	Year-on-year changes
Profitability indicators⁽¹⁾				
Return on average assets attributable to shareholders of the Bank	1.39	1.15	1.29	Increased by 0.10 percentage point
Return on average equity attributable to ordinary shareholders of the Bank	19.61	16.54	19.11	Increased by 0.50 percentage point
Net interest spread	2.42	2.29	2.31	Increased by 0.11 percentage point
Net interest margin	2.54	2.43	2.43	Increased by 0.11 percentage point
As percentage of net operating income				
– Net interest income	61.07	65.53	62.72	Decreased by 1.65 percentage points
– Net non-interest income	38.93	34.47	37.28	Increased by 1.65 percentage points
Cost-to-income ratio ⁽²⁾	26.85	30.21	25.39	Increased by 1.46 percentage points

	30 June 2018	31 December 2017 (%)	31 December 2016	Changes over 2017 year-end
Capital adequacy indicators under the advanced approach⁽³⁾				
Core Tier 1 capital adequacy ratio	11.61	12.06	11.54	Decreased by 0.45 percentage point
Tier 1 capital adequacy ratio	12.51	13.02	11.54	Decreased by 0.51 percentage point
Capital adequacy ratio	15.08	15.48	13.33	Decreased by 0.40 percentage point
Equity to total assets	7.71	7.68	6.79	Increased by 0.03 percentage point
Asset quality indicators⁽⁴⁾				
Non-performing loan ratio	1.43	1.61	1.87	Decreased by 0.18 percentage point
Allowance coverage ratio of non-performing loans	316.08	262.11	180.02	Increased by 53.97 percentage points
Allowance ratio of loans	4.51	4.22	3.37	Increased by 0.29 percentage point

Notes: (1) The profitability indicators for the interim period were all calculated on an annualised basis.

(2) Cost-to-income ratio = operating expenses/net operating income. The numerator excludes taxes and surcharges, allowances for insurance claims as well as the depreciation of fixed assets leased out under operating leases and investment properties. The cost-to-income ratio of the Group was 25.88% before the numerator was adjusted for the first six months of 2017 on the same statistical calibre.

(3) As at the end of the reporting period, the Group's capital adequacy ratio, Tier 1 capital adequacy ratio and core Tier 1 capital adequacy ratio under the weighted approach were 12.44%, 10.70% and 9.93%, respectively.

(4) Allowance coverage ratio of non-performing loans = allowances for impairment losses/balance of non-performing loans. Allowance ratio of loans = allowances for impairment losses/total loans and advances to customers.

Report of the Board of Directors

3.1 Analysis of the Overall Operation

In the first half of 2018, confronted with the cumulative influence of external conditions such as the macro-economic deleveraging and stringent financial regulation, the Group continued to implement its strategic direction and positioning of “Light-operation Bank” and “One Body with Two Wings” by carrying out various businesses in a proactive and sound manner. Our overall operation continued to improve and the dynamic and balanced development of “Quality, Efficiency and Scale” was achieved, which were reflected mainly in the following aspects:

Earnings increased steadily. As at the end of the reporting period, the Group realised a net profit attributable to shareholders of the Bank of RMB44.756 billion, representing a year-on-year increase of 14.00%; the net interest income was RMB77.012 billion, representing a year-on-year increase of 8.63%; the net non-interest income was RMB49.091 billion, representing an increase of 16.51% as compared with the corresponding period of the previous year and an increase of 4.95% as compared with the corresponding period of the previous year without taking into consideration the impact of the new financial instruments standard¹. The return on average asset (ROAA) and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.39% and 19.61%, up by 0.10 percentage point and 0.50 percentage point from the corresponding period of the previous year, respectively.

The scale of assets and liabilities expanded steadily. As at the end of the reporting period, the Group’s total assets amounted to RMB6,537.340 billion, representing an increase of 3.81% as compared with the end of the previous year. The total loans and advances to customers amounted to RMB3,877.868 billion, representing an increase of 8.77% as compared with the end of the previous year. Total liabilities amounted to RMB6,033.289 billion, representing an increase of 3.77% as compared with the end of the previous year. Total deposits from customers amounted to RMB4,257.803 billion, representing an increase of 4.76% as compared with the end of the previous year.

The non-performing loans decreased and the allowance coverage ratio remained solid. As at the end of the reporting period, the Group had total non-performing loans of RMB55.382 billion, representing a decrease of RMB2.011 billion as compared with the end of the previous year. The non-performing loan ratio was 1.43%, down by 0.18 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 316.08%, representing an increase of 53.97 percentage points as compared with the end of the previous year.

1 The new financial instrument standard refers to International Financial Reporting Standard 9 Financial Instruments (IFRS 9). Before the implementation of the standard, some of the financial instruments are measured at amortised cost or measured at fair value through other comprehensive income. After the implementation, the measurement attributes and accounting methods are adjusted to be measured at fair value through profit or loss. The impact on the data of revenue will be: fair value changes of the current period will affect the net non-interest income and the net operating income; the presentation of investment income will be changed from the interest income to the non-interest income, affecting the net interest and net non-interest income structure, but will not affect the total net operating income.

3.2 Analysis of Income Statement

3.2.1 Financial highlights

During the reporting period, the Group realised a profit before tax of RMB58.945 billion, representing a year-on-year increase of 18.03%. The effective income tax rate was 23.88%, representing a year-on-year increase of 2.90 percentage points. The following table sets out the changes in major income/loss items of the Group during the reporting period.

	January to June 2018	January to June 2017 (in millions of RMB)	Changes
Net interest income		70,896	6,116
Net fee and commission income		34,750	2,719
Other net income		6,984	3,796
Operating expenses		(30,442)	(5,287)
Share of profits of associates and joint ventures		402	440
Credit impairment losses		(32,648)	1,219
Profit before tax		49,942	9,003
Income tax		(10,476)	(3,600)
Net profit		39,466	5,403
Net profit attributable to shareholders of the Bank		39,259	5,497

3.2.2 Net operating income

During the reporting period, the net operating income of the Group was RMB126.103 billion, representing an increase of 11.56% as compared with the corresponding period of the previous year or 10.62% after elimination of the impact of implementing the new financial instruments standard. The net interest income accounted for 61.07% of the total net operating income, the net non-interest income accounted for 38.93% of the total net operating income.

3.2.3 Interest income

During the reporting period, the Group recorded an interest income of RMB131.175 billion, representing a year-on-year increase of 12.70%, or 15.97% after elimination of the impact of implementing the new financial instruments standard, mainly due to the increase in interest-earning assets, and increased yield of interest-earning assets brought by the continuous optimisation of asset structure as well as improvement in risk pricing. Interest income from loans and advances to customers continued to be the biggest component of the interest income of the Group.

Interest income from loans and advances to customers

During the reporting period, the interest income from loans and advances to customers of the Group was RMB94.106 billion, representing a year-on-year increase of 15.34%.

Report of the Board of Directors

The following table sets forth, for the periods indicated, the average balances, interest income and annualised average yields of different types of loans and advances to customers of the Group. The average balances refer to the average of the daily balances (same as below).

	January to June 2018			January to June 2017		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
	(in millions of RMB, except for percentages)					
Corporate loans				1,651,597	32,451	3.96
Retail loans				1,613,404	47,163	5.89
Discounted bills				163,198	1,976	2.44
Loans and advances to customers				3,428,199	81,590	4.80

In the first half of 2018, from the perspective of the maturity structure of loans and advances to customers of the Company, the average balance of short-term loans was RMB1,562.542 billion with the interest income amounting to RMB46.994 billion, and the average yield reached 6.06%; the average balance of medium- to long-term loans was RMB1,898.815 billion with the interest income amounting to RMB41.829 billion, and the average yield reached 4.44%. The average yield of short-term loans was higher than that of medium- to long-term loans, which was attributable to the higher yield of credit card loans and micro-finance loans in short-term loans.

Interest income from investments

During the reporting period, the interest income from investments of the Group was RMB24.098 billion, representing a year-on-year decrease of 2.25%, and the annualised average yield of investments was 3.80%, representing a year-on-year increase of 28 basis points.

Interest income from balances and placements with banks and other financial institutions

During the reporting period, the interest income of the Group from balances and placements with banks and other financial institutions was RMB8.944 billion, representing a year-on-year increase of 52.34%, and the annualised average yield of balances and placements with banks and other financial institutions was 3.07%, representing a year-on-year increase of 50 basis points, which was primarily because the Company seized the opportunity of rising market interest rates to increase the allocation of balances and placements with banks and other financial institutions.

Report of the Board of Directors

3.2.4 Interest expense

During the reporting period, the interest expense of the Group was RMB54.163 billion, representing a year-on-year increase of 19.05%, which was primarily attributable to the increase in the scale of interest-bearing liabilities and intensified competition in securing deposits that have pushed up market interest rates and cost ratio of deposits.

Interest expense on deposits from customers

During the reporting period, the Group's interest expense on deposits from customers was RMB29.667 billion, representing a year-on-year increase of 22.51%, which was primarily attributable to the increase in the scale of deposits as well as the increase in cost ratios of deposits as a result of the intensified competition in securing deposits. However, the increase in cost ratios of deposits remained at a satisfactory level due to the relatively high proportion of the Group's demand deposits.

The following table sets forth, for the periods indicated, the average balances, interest expenses and annualised average cost ratios for corporate and retail deposits of the Group.

	January to June 2018		January to June 2017	
	Average balance	Interest expenses	Average balance	Interest expenses
		Annualised average cost ratio (%)		Annualised average cost ratio (%)
	(in millions of RMB, except for percentages)			
Deposits from corporate customers				
Demand			1,470,672	5,124
Time			1,171,623	14,006
Subtotal			2,642,295	19,130
Deposits from retail customers				
Demand			969,894	1,749
Time			333,911	3,337
Subtotal			1,303,805	5,086
Total deposits from customers			3,946,100	24,216

Interest expense on deposits and placements from banks and other financial institutions

During the reporting period, the interest expense of the Group on deposits and placements from banks and other financial institutions amounted to RMB12.438 billion, representing a year-on-year increase of 11.33%, which was primarily due to continual optimisation of the liability structure, and the proportion of high cost liabilities was maintained at a reasonably controllable level.

Interest expense on debt securities issued

During the reporting period, the interest expense on debt securities issued of the Group amounted to RMB6.611 billion, representing a year-on-year increase of 10.50%, which was primarily attributable to the higher cost ratios of debt securities issued than in the corresponding period of the previous year.

Report of the Board of Directors

3.2.5 Net interest income

During the reporting period, the Group's net interest income amounted to RMB77.012 billion, representing a year-on-year increase of 8.63%, or 14.00% after elimination of the impact of implementing the new financial instruments standard.

The following table sets out the average balances of assets and liabilities, interest income/interest expenses, and annualised average yields/cost ratios of the Group for the periods indicated.

	January to June 2018			January to December 2017			January to June 2017		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Annualised average yield (%)
(in millions of RMB, except for percentages)									
Interest-earning assets									
Loans and advances to customers				3,508,470	168,858	4.81	3,428,199	81,590	4.80
Investments				1,432,408	52,042	3.63	1,414,121	24,653	3.52
Balances with the Central Bank				566,594	8,679	1.53	568,452	4,279	1.52
Balances and placements with banks and other financial institutions				459,129	12,426	2.71	461,410	5,871	2.57
Total				5,966,601	242,005	4.06	5,872,182	116,393	4.00
(in millions of RMB, except for percentages)									
	Average balance	Interest expenses	Annualised average cost ratio (%)	Average balance	Interest expenses	Average cost ratio (%)	Average balance	Interest expenses	Annualised average cost ratio (%)
(in millions of RMB, except for percentages)									
Interest-bearing liabilities									
Deposits from customers				3,965,462	50,329	1.27	3,946,100	24,216	1.24
Deposits and placements from banks and other financial institutions				880,787	24,138	2.74	867,224	11,172	2.60
Debt securities issued				339,320	13,436	3.96	323,450	5,983	3.73
Borrowings from the Central Bank				305,886	9,250	3.02	285,366	4,126	2.92
Total				5,491,455	97,153	1.77	5,422,140	45,497	1.69
Net interest income				/	144,852	/	/	70,896	/
Net interest spread				/	/	2.29	/	/	2.31
Net interest margin				/	/	2.43	/	/	2.43

During the reporting period, the annualised average yield of the interest-earning assets of the Group was 4.32%, while the annualised average cost ratio of interest-bearing liabilities was 1.90%, representing a year-on-year increase of 32 basis points and 21 basis points respectively. The net interest spread was 2.42%, while the net interest margin was 2.54%, both representing a year-on-year increase of 11 basis points.

Report of the Board of Directors

The following table sets forth, for the periods indicated, the breakdown of changes in interest income and interest expenses due to changes in volumes and interest rates of the Group. Changes in volume are measured by changes in average balances (daily average balance), while changes in interest rate are measured by changes in the average interest rates; the changes in interest income and interest expenses due to changes in both volume and interest rate have been included in the amount of changes in interest income and interest expenses due to changes in volume.

January to June 2018 compared to January to June 2017			
	Increase (decrease) due to Volume	Interest rate (in millions of RMB)	Net increase (decrease)
Assets			
Loans and advances to customers			
Investments			
Balances with the Central Bank			
Balances and placements with banks and other financial institutions			
<hr/>			
Changes in interest income			
Liabilities			
Deposits from customers			
Deposits and placements from banks and other financial institutions			
Debt securities issued			
Borrowings from the Central Bank			
<hr/>			
Changes in interest expense			
Changes in net interest income			

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The following table sets out the average balances of assets and liabilities, interest income/interest expenses and annualised average yields/cost ratios of the Group for the periods indicated.

	January to March 2018			April to June 2018		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets						
Loans and advances to customers						
Investments						
Balances with the Central Bank						
Balances and placements with banks and other financial institutions						
Total						

(in millions of RMB, except for percentages)

	January to March 2018			April to June 2018		
	Average balance	Interest expenses	Annualised average cost ratio (%)	Average balance	Interest expenses	Annualised average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers						
Deposits and placements from banks and other financial institutions						
Debt securities issued						
Borrowings from the Central Bank						
Total						
Net interest income						
Net interest spread						
Net interest margin						

(in millions of RMB, except for percentages)

Due to the relatively sufficient market liquidity in the second quarter, the market yield decreased substantially. In the second quarter of 2018, the net interest spread of the Group was 2.40%, down by 3 basis points as compared with the first quarter of 2018. Of which the annualised average yield of the interest-earning assets was 4.31%, down by 2 basis points as compared with the first quarter of 2018 while the annualised average cost ratio of interest-bearing liabilities was 1.91%, up by 1 basis point as compared with the first quarter of 2018. The net interest margin was 2.53%, down by 2 basis points as compared with the first quarter of 2018.

3.2.6 Net non-interest income

During the reporting period, the Group recorded a net non-interest income of RMB49.091 billion, representing a year-on-year increase of 16.51%, or 4.95% after elimination of the impact of switching to adopt the new financial instruments standard.

Net fee and commission income amounted to RMB37.469 billion, representing an increase of 7.82% as compared with the corresponding period of the previous year. Among which, bank card fees increased by RMB1.614 billion or 24.79% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in UnionPay POS agency service income; commissions from credit commitment and loan business increased by RMB1.062 billion or 46.76% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in income from financial leasing fees and income from domestic factoring fees; agency services fees increased by RMB917 million or 11.07%; settlement and clearing fees rose by RMB359 million or 6.61% as compared with the corresponding period of the previous year; commissions on trust and fiduciary activities decreased by RMB477 million or 3.99% as compared with the corresponding period of the previous year, which were mainly due to the impact of the New Regulation on Asset Management, the value-added tax policy for asset management products as well as the decrease in the income from wealth management.

Other net non-interest income amounted to RMB11.622 billion, representing an increase of 57.35% as compared with the same period of the previous year. Among which, net investment income amounted to RMB6.142 billion, representing an increase of RMB2.464 billion or 66.99% as compared with the corresponding period of the previous year calculated at the same statistical calibre. Net gain from fair value changes amounted to RMB1.056 billion, representing an increase of RMB935 million as compared with the corresponding period of the previous year calculated at the same statistical calibre, which was primarily attributable to the impact of the new financial instruments standard. Other net income amounted to RMB2.023 billion, representing an increase of RMB443 million or 28.04% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in the income from leasing business.

Among the business segments, the net non-interest income from retail finance amounted to RMB24.431 billion, representing an increase of 20.49% as compared with the corresponding period of the previous year and accounting for 49.77% of the Group's net non-interest income; the net non-interest income from wholesale finance amounted to RMB19.436 billion, representing an increase of 4.06% as compared with the corresponding period of the previous year and accounting for 39.59% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB5.224 billion, representing an increase of 64.17% as compared with the corresponding period of the previous year and accounting for 10.64% of the Group's net non-interest income.

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The following table sets forth, for the periods indicated, the principal components of net non-interest income of the Group. For details of the net non-interest income of the Company, please refer to section 3.9.1 headed "Net non-interest income" in this chapter.

	January to June 2018	January to June 2017
	(in millions of RMB)	
Fee and commission income		37,526
Bank card fees		6,512
Settlement and clearing fees		5,429
Agency services fees		8,280
Commissions from credit commitment and loan business		2,271
Commissions on trust and fiduciary activities		11,942
Others		3,092
Less: fees and commission expense		(2,776)
Net fee and commission income		34,750
Other net non-interest income		7,386
Net gains from fair value changes		121
Net investment income		3,678
Exchange gain		1,605
Other net operating income		1,580
Share of profits of associates and joint ventures		402
Total net non-interest income		42,136

3.2.7 Operating expenses

During the reporting period, the Group's operating expenses amounted to RMB35.729 billion, representing an increase of 17.37% as compared with the corresponding period of the previous year calculated at the same statistical calibre, among which, staff costs of the Group increased by 21.37% as compared with the corresponding period of the previous year. Other general and administrative expenses increased by 18.91% as compared with the corresponding period of the previous year. The cost-to-income ratio was 26.85%, representing an increase of 1.46 percentage points as compared with the corresponding period of the previous year calculated at the same statistical calibre. The increase in operating expenses was primarily attributable to the Group's efforts to further support financial technology innovation, enhance technology-based capability, and increase the investment to finance the transformation and development activities such as upgrading digital outlets and attracting active users per month of our APPs. In the first half of the year, the Group continued to increase its investment in IT software and hardware as well as human resources for research and development. The Company's cost-to-income ratio was 26.75%, up by 1.50 percentage points as compared with the corresponding period of the previous year calculated at the same statistical calibre.

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

	January to June 2018	January to June 2017
	(in millions of RMB)	
Staff costs		17,734
Taxes and surcharges		1,073
Depreciation of fixed assets and investment properties		2,440
Amortisation of intangible assets		288
Rental expenses		2,066
Other general and administrative expenses		6,721
Allowances for insurance claims		120
Total operating expenses		30,442

3.2.8 Credit impairment losses

During the reporting period, credit impairment losses of the Group were RMB31.429 billion, representing a year-on-year decrease of 3.73%. The following table sets forth, for the periods indicated, the principal components of credit impairment losses of the Group.

	January to June 2018	January to June 2017
	(in millions of RMB)	
Loans and advances to customers		33,139
Investments		(960)
Amounts due from banks and other financial institutions		100
Expected off-balance sheet credit impairment losses		N/A
Other assets		369
Total credit impairment losses		32,648

Credit impairment losses of loans and advances to customers were the largest component of credit impairment losses of the Group. During the reporting period, credit impairment losses of loans and advances to customers were RMB30.378 billion, representing a year on year decrease of 8.33%, which was mainly due to the improvement in asset quality resulting in decrease of allowances. For details of the allowances for impairment losses on loans, please refer to the section headed "Analysis of Loan Quality" in this chapter.

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3.3 Analysis of Balance Sheet

3.3.1 Assets

As at the end of the reporting period, the total assets of the Group amounted to RMB6,537.340 billion, representing an increase of 3.81% as compared with the end of the previous year, which was mainly attributable to the increase in loans and advances to customers.

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

	30 June 2018		31 December 2017	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
(in millions of RMB, except for percentages)				
Total loans and advances to customers			3,565,044	56.61
Allowances for impairment losses on loans ⁽¹⁾			(150,432)	(2.39)
Net loans and advances to customers			3,414,612	54.22
Investment securities and other financial assets			1,602,351	25.44
Cash, precious metals and balances with the Central Bank			625,728	9.94
Balances with banks and other financial institutions			76,918	1.22
Placements with banks and other financial institutions and amounts held under resale agreements			407,178	6.47
Goodwill			9,954	0.16
Other assets ⁽²⁾			160,897	2.55
Total assets			6,297,638	100.00

Notes: (1) The "allowances for impairment losses on loans" as at the end of the period were only for the allowances for impairment losses on loans and advances measured at amortised cost. The allowances for impairment losses of RMB97 million were not deducted from the carrying values of the loans and advances measured at fair value through other comprehensive income. For details, please refer to Note 16 (a) of the financial statements.

(2) Including interest receivable, fixed assets, intangible assets, investment properties, deferred tax assets and other assets.

3.3.1.1 Loans and advances to customers

As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB3,877.868 billion, representing an increase of 8.77% as compared with the end of the previous year; total loans and advances to customers accounted for 59.32% of the total assets, representing an increase of 2.71 percentage points as compared with the end of the previous year. For details of the loans and advances to customers of the Group, please refer to "Analysis of Loan Quality" in this chapter.

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3.3.1.2 Investment securities and other financial assets

The Group's investment securities and other financial assets consist of listed and unlisted financial instruments denominated in RMB and foreign currencies. During the reporting period, accounting classifications of the Group's investment securities and other financial assets have been changed according to the requirements of the new financial instruments standards.

The following table sets forth the components of the investment portfolio of the Group according to accounting classifications.

	30 June 2018		31 December 2017	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Investments at fair value through profit or loss			64,796	4.04
– Bond investments			64,152	4.00
– Non-standardised credit asset investments			–	–
– Others ^(note)			644	0.04
Derivative financial assets			18,916	1.18
Debt investments at fair value through other comprehensive income			N/A	N/A
Equity investments designated at fair value through other comprehensive income			N/A	N/A
Debt investments measured at amortised cost			N/A	N/A
– Bond investments			N/A	N/A
– Non-standardised credit asset investments			N/A	N/A
– Others			N/A	N/A
Less: allowances for impairment losses			N/A	N/A
Available-for-sale financial assets			383,101	23.91
Held-to-maturity investments			558,218	34.84
Investments classified as receivables			572,241	35.71
Investments in joint ventures and associates			5,079	0.32
Total investment securities and other financial assets			1,602,351	100.00

Note: Including equity investments, investments in funds, wealth management products, long position in precious metal contracts and others.

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Investments at fair value through profit or loss

As at the end of the reporting period, the Group's investments at fair value through profit or loss amounted to RMB190.850 billion. The main categories were bond investment and non-standardised credit asset investment. Bond investment was made mainly to cater to the need of the Group to grasp the trading opportunities in the bond market to increase investment income. During the reporting period, affected by the market changes and risk aversion due to trade friction, the market value of bonds in the trading account increased significantly. By strengthening market research, the Group adopted an aggressive trading strategy that matched the market situation, lengthened the duration of trading account, and actively carried out the range trading operation of bonds and interest rate swaps. The overall portfolio generated good returns. Non-standardised credit asset investments were mainly non-standardised bill investments. For details, please refer to Note 17(a) of the financial statements.

Derivative financial instruments

As at the end of the reporting period, the major categories and amount of derivative financial instruments held by the Group are indicated as in the following table. For details, please refer to Note 40(f) of the financial statements.

	30 June 2018		31 December 2017		
	Notional amount	Fair value Assets Liabilities (in millions of RMB)	Notional amount	Fair value Assets	Liabilities
Interest rate derivatives			2,073,724	2,249	(1,898)
Currency derivatives			1,305,784	16,345	(19,636)
Other derivatives			108,927	322	(323)
Total			3,488,435	18,916	(21,857)

During the reporting period, the exchange rate of RMB against US dollar showed obvious two-way fluctuation characteristics, and the level of liberalisation of exchange rates continued to increase. The Group continued to enhance its trading and service capabilities to provide exchange rate and interest rate risk management services to a wider range of customers.

Debt investments at fair value through other comprehensive income

As at the end of the reporting period, the Group's debt investments at fair value through other comprehensive income amounted to RMB354.081 billion. Such investments were made mainly to cater to the need of the Group to improve business performance. During the reporting period, the Group responded to market trends, actively grasped the market opportunities, moderately extended the durations, and focused on increase of the holdings of highly liquid assets such as treasury bonds, and optimised the asset-liability allocation structure. For details, please refer to Note 17(b) of the financial statements.

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Equity investments designated at fair value through other comprehensive income

As at the end of the reporting period, the Group's equity investments designated at fair value through other comprehensive income amounted to RMB3.282 billion. Such investments were mainly non-trading equity investments held by the Group in the investees where the Group had no control, joint control or significant influence. For details, please refer to Note 17(c) of the financial statements.

Debt investments measured at amortised cost

As at the end of the reporting period, the Group's debt investments measured at amortised cost amounted to RMB902.665 billion, including bond investments, non-standardised credit asset investments and others. Among which, the bond investments were made mainly in the bonds issued by the PRC government and policy banks. This category of investments was held on a long-term basis for the strategic allocation of assets and liabilities of the Group, based on the requirements of interest rate risk management of bank accounts and liquidity management, while taking into account the benefits and risks. Non-standardised asset investments were mainly non-standardised credit investments. For details, please refer to Note 17(d) of the financial statements. For details of the Company's non-standardised assets investments, please refer to section 3.9.1 headed "The proprietary funds invested in non-standardised credit assets" in this chapter.

The composition of the Group's total bond investments classified by the issuing entities

	30 June 2018	31 December 2017
	(in millions of RMB)	
Official authorities ^(note)		497,260
Policy banks		258,213
Commercial banks and other financial institutions		151,101
Others ^(note)		69,826
Total Bond investments		976,400

Note: "Official authorities" include the Ministry of Finance of the PRC, local governments and the Central Bank; "Others" mainly refer to enterprises.

Investments in joint ventures and associates

As at the end of the reporting period, the Group's net investments in joint ventures and associates amounted to RMB7.058 billion, representing an increase of 38.96% as compared with the end of the previous year, which was mainly attributable to the increased investment in associates. As at the end of the reporting period, the Group's balance of allowances for impairment losses on investments in joint ventures and associates was zero. For details, please refer to Notes 18 and 19 of the financial statements.

3.3.1.3 Goodwill

As at the end of the reporting period, the Group had a balance of allowances for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.954 billion.

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3.3.2 Liabilities

As at the end of the reporting period, the total liabilities of the Group amounted to RMB6,033.289 billion, representing an increase of 3.77% as compared with the end of the previous year, which was primarily due to the steady growth in deposits from customers.

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

	30 June 2018		31 December 2017	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Deposits from customers			4,064,345	69.90
Deposits from banks and other financial institutions			439,118	7.55
Borrowings from the Central Bank			414,838	7.13
Placements from banks and other financial institutions			272,734	4.69
Financial liabilities at fair value through profit or loss			26,619	0.46
Derivative financial liabilities			21,857	0.38
Amounts sold under repurchase agreements			125,620	2.16
Debt securities issued			296,477	5.10
Others ^(note)			152,638	2.63
Total liabilities			5,814,246	100.00

Note: Including salaries and welfare payable, taxes payable, interest payable, deferred income tax liabilities, contract liabilities, estimated liabilities and other liabilities.

Deposits from customers

As at the end of the reporting period, total deposits from customers of the Group amounted to RMB4,257.803 billion, representing an increase of 4.76% as compared with the end of the previous year. Deposits from customers, accounting for 70.57% of the total liabilities of the Group, was the major funding source of the Group.

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The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

	30 June 2018		31 December 2017	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
(in millions of RMB, except for percentages)				
Deposits from corporate customers				
Demand			1,581,802	38.92
Time			1,144,021	28.15
Subtotal			2,725,823	67.07
Deposits from retail customers				
Demand			972,291	23.92
Time			366,231	9.01
Subtotal			1,338,522	32.93
Total deposits from customers			4,064,345	100.00

As at the end of the reporting period, the percentage of demand deposits to total deposits from customers of the Group was 61.48%. Among which, the corporate demand deposits accounted for 57.23% of the deposits from corporate customers, and the retail demand deposits accounted for 69.49% of the deposits from retail customers.

3.3.3 Shareholders' equity

As at the end of the reporting period, the shareholders' equity of the Group was RMB504.051 billion, representing an increase of 4.27% as compared with the end of the previous year. Equity attributable to shareholders of the Bank was RMB500.715 billion, representing an increase of 4.27% as compared with the end of the previous year. Among which, retained profits amounted to RMB255.436 billion, representing an increase of 5.96% as compared with the end of the previous year. Investment revaluation reserve amounted to RMB1.638 billion, representing an increase of RMB5.450 billion as compared with the end of the previous year, which was mainly due to an increase of valuation in the bonds.

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3.4 Analysis of Loan Quality

During the reporting period, the Group saw a steady growth in the volume of credit assets and a decrease in the non-performing loan ratio. The allowance coverage ratio remained solid, and our risk loss endurance capability was further improved. As at the end of the reporting period, total loans and advances to customers of the Group were RMB3,877.868 billion, representing an increase of 8.77% as compared with the end of the previous year; the non-performing loan ratio was 1.43%, down by 0.18 percentage point from the end of the previous year; the non-performing loan allowance coverage ratio was 316.08%, representing an increase of 53.97 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.51%, representing an increase of 0.29 percentage point as compared with the end of the previous year.

3.4.1 Distribution of loans by 5-tier loan classification

The following table sets forth the 5-tier loan classification of the Group as at the dates indicated.

	30 June 2018		31 December 2017	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Normal			3,450,450	96.79
Special mention			57,201	1.60
Substandard			17,100	0.48
Doubtful			21,577	0.61
Loss			18,716	0.52
Total loans and advances to customers			3,565,044	100.00
Total non-performing loans			57,393	1.61

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. As at the end of the reporting period, the total non-performing loans of the Group amounted to RMB55.382 billion, representing a decrease of 3.50% as compared with the end of the previous year. The special mention loans amounted to RMB58.323 billion, accounting for 1.50% of the total loans, and representing a decrease of 0.10 percentage point as compared with the end of the previous year.

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3.4.2 Distribution of loans and non-performing loans by product type

	30 June 2018		31 December 2017					
	Loan balance	Percentage of the total (%)	Non- performing loan	Non- performing loan ratio (%) ⁽¹⁾	Loan balance	Percentage of the total (%)	Non- performing loan	Non- performing loan ratio (%) ⁽¹⁾
	(in millions of RMB, except for percentages)							
Corporate loans					1,663,861	46.67	41,522	2.50
Working capital loans					868,844	24.37	27,300	3.14
Fixed asset loans					397,807	11.16	5,770	1.45
Trade finance					159,090	4.46	1,516	0.95
Others ⁽²⁾					238,120	6.68	6,936	2.91
Discounted bills⁽³⁾					115,888	3.25	–	–
Retail loans					1,785,295	50.08	15,871	0.89
Micro-finance loans					312,716	8.77	5,549	1.77
Residential mortgage loans					833,410	23.38	2,734	0.33
Credit card loans					491,383	13.78	5,470	1.11
Others ⁽⁴⁾					147,786	4.15	2,118	1.43
Total loans and advances to customers					3,565,044	100.00	57,393	1.61

- Notes: (1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.
- (2) Consists primarily of other corporate loans such as financial leasing, M&A loans and corporate mortgage loans.
- (3) The Company will transfer discounted bills to corporate loans for accounting purposes once overdue.
- (4) The "Others" category consists primarily of general consumption loans, commercial housing loans, automobile loans, house decoration loans, education loans and other personal loans secured by monetary assets.

In the first half of 2018, in terms of retail loans, the Group steadily developed the businesses of residential mortgage loans for self-occupation housing and micro-finance loans, and moderately granted credit card loans. As a result, the percentage of retail loans at the end of the period decreased by 1.84 percentage points to 48.24%. As at the end of the reporting period, the non-performing retail loan ratio was 0.77%, down by 0.12 percentage point as compared with the end of the previous year. Among which, the non-performing credit card loan ratio was 1.14%, up by 0.03 percentage point as compared with the end of the previous year, which was mainly due to the impact of the new cash loan policy, joint-debt risk and other external factors. In the meantime, the Group proactively prevented and controlled the relevant risks, the quality of assets was stable and controllable. With respect to corporate loans, the proportion of working capital loans decreased slightly, and the non-performing loan ratio of working capital loans decreased. The proportion of trade finance loans decreased significantly, and the non-performing loan ratio of trade finance loans increased. As at the end of the reporting period, the non-performing corporate loan ratio of the Group was 2.30%, representing a decrease of 0.20 percentage point as compared with the end of the previous year.

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3.4.3 Distribution of loans and non-performing loans by industry

	30 June 2018		31 December 2017					
	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (%) ⁽¹⁾	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (%) ⁽¹⁾
	(in millions of RMB, except for percentages)							
Corporate loans					1,663,861	46.67	41,522	2.50
Manufacturing					266,200	7.47	17,447	6.55
Property development					236,926	6.65	3,211	1.36
Transportation, storage and postal services					230,035	6.45	2,241	0.97
Wholesale and retail					219,818	6.17	9,101	4.14
Leasing and commercial services					138,224	3.88	196	0.14
Production and supply of electric power, heat, gas and water					128,965	3.62	925	0.72
Finance					93,474	2.62	1	-
Construction					87,216	2.45	1,452	1.66
Information transmission, software and IT service					79,335	2.22	1,391	1.75
Water conservancy, environment and public utilities					65,858	1.84	184	0.28
Mining					43,347	1.22	4,622	10.66
Others ⁽²⁾					74,463	2.08	751	1.01
Discounted bills					115,888	3.25	-	-
Retail loans					1,785,295	50.08	15,871	0.89
Total loans and advances to customers					3,565,044	100.00	57,393	1.61

Notes: (1) Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of agriculture, forestry, animal husbandry, fishery, accommodation and catering, health and social work, etc.

(3) In 2018, the Group classified the industries and adjusted the comparable data on the same statistical calibre based on the revised National Standard of the Industrial Classification for National Economic Activities (GB/T 4754-2017) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Standardisation Administration of the PRC.

In the first half of 2018, the Group followed the key national strategic plans, continued to support the development of the real economy, constantly optimised its risk asset portfolio, actively invested in national pillar industries such as emerging technological industries, modern service industries and advanced manufacturing industries. The Group formulated the differential prevention and control strategy for key areas such as industries from which our loans should be reduced and recovered, real estate and local government financing platforms, focused on the reduction and withdrawal of loans granted to customers with high risks such as customers associated with overcapacity and high debt. The Group also optimised the allocation of credit resources.

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During the reporting period, the non-performing loans and non-performing loan ratio of the Group both recorded a decrease. The non-performing loans decreased by RMB2.011 billion as compared with the end of the previous year, and the non-performing loan ratio decreased by 0.18 percentage point as compared with the end of the previous year. Among which, the non-performing loan ratio related to wholesale and retail increased by 0.39 percentage point, which was mainly due to the tightening of credit in the industry, with the balance decreased by 15.25% as compared with the beginning of the year. Due to the overcapacity of certain large-sized enterprises, the non-performing loans and non-performing loan ratio related to manufacturing industry increased by RMB2.334 billion and 0.36 percentage point, respectively. The non-performing loan ratio of all other industries decreased. Among which, the non-performing loan ratio of mining and construction industries decreased by 1.14 percentage points and 0.51 percentage point respectively as compared with the beginning of the year, and the asset quality was improved.

3.4.4 Distribution of loans and non-performing loans by region

	30 June 2018				31 December 2017			
	Loan balance	Percentage of the total (%)	Non- performing loan	Non- performing loan ratio (%) ^(note)	Loan balance	Percentage of the total (%)	Non- performing loan	Non- performing loan ratio (%) ^(note)
	(in millions of RMB, except for percentages)							
Head Office					596,631	16.74	5,637	0.94
Yangtze River Delta					735,044	20.62	10,893	1.48
Bohai Rim					425,602	11.94	7,266	1.71
Pearl River Delta and West Side of Taiwan Strait					598,374	16.78	8,674	1.45
North-eastern China					145,204	4.07	4,260	2.93
Central China					343,343	9.63	6,394	1.86
Western China					350,991	9.85	12,012	3.42
Overseas					109,508	3.07	203	0.19
Subsidiaries					260,347	7.30	2,054	0.79
Total loans and advances to customers					3,565,044	100.00	57,393	1.61

Note: Represents the percentage of the non-performing loans in a certain category to the total loans of that category.

Given the differences in economic patterns and customer bases of various regions, the Group implemented differentiated supervisory management by category for branches and sub-branches in different regions, and followed the national spatial layout strategic plans for economic development such as coordinated development of Beijing-Tianjin-Hebei, the construction of Xiong'an New District, the construction of the Yangtze River Economic Belt and the development of the urban agglomeration in the bay areas of Guangdong, Hong Kong and Macau. For the risk concentrated regions, the Group selectively raised the credit access standard and dynamically adjusted the credit authorisation so as to prevent the occurrence of regional systematic risks. As at the end of the reporting period, the percentage of the balance of loans extended to the Bohai Rim by the Group showed a relatively fast increase, while the percentages of the balance of loans extended by the Head Office, to the Yangtze River Delta and Western China recorded a decrease. The regions where the Company incurred a large volume of non-performing loans were Yangtze River Delta, Bohai Rim and Western China, where the non-performing loan ratios of the Company decreased by 0.21 percentage point, increased by 0.19 percentage point and decreased by 0.91 percentage point, respectively as compared with the end of the previous year. Among which, the non-performing loan ratio of the Company in the Bohai Rim increased due to the impact of certain large customers.

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In addition, adhering to construction of the Fintech bank, the Company increased its efforts in attracting and fostering hi-tech talents. During the reporting period, with the Fintech college commencing operation, business development of the entire Bank is now rested on the medium- and long-term Fintech talent fostering and supported by three software centers in Shenzhen, Hangzhou and Chengdu and two data centers in Shenzhen and Shanghai.

3.10.5 Overseas⁹ businesses

Hong Kong Branch

Established in 2002, our Hong Kong Branch is engaged in wholesale banking and retail banking. With regard to wholesale banking, the Hong Kong Branch provides enterprises located in Hong Kong with diversified corporate banking products and services, such as deposits, loans (including bilateral loans, syndicated loans, trade facilities and cross-border M&A portfolio solutions), settlement and asset custody, and engages in interbank transaction of funds, bonds and foreign exchange trading, and conducts funds clearing and asset transfer with financial institution customers. With respect to retail banking, the Hong Kong Branch proactively develops featured retail banking services and provides cross-border personal banking services for individual customers in Hong Kong and Mainland China. These featured products are “Hong Kong All-in-one Card” and “Hong Kong Bank-Securities Express”.

During the reporting period, with Hong Kong as a “bridge-head” for international finance, our Hong Kong branch focused on the globalization of asset allocation among mid- to high-end customers, constantly promoted cross-border business coordination, actively expanded overseas customer groups and its market share, successfully granted the first overseas retail loan and completed the first overseas personal customer bond investment business, which in turn pushed forward the internationalization of retail business. Meanwhile, our Hong Kong Branch kept up with the trend of the times, broadened the Fintech application,

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Singapore Branch

Established in 2013, our Singapore Branch is positioned as a significant cross-border financial platform in Southeast Asia, striving to provide a basket of premium cross-border financial services to the Chinese companies “going global” and Singaporean companies “brought in”. Its featured products include back to back L/Cs, front to back L/Cs, import bill advance and export bill purchase, loans secured by account receivables, time deposits, accepting guarantees from domestic enterprise as security for loans granted to overseas entity, accepting guarantees from overseas entity as security for loans granted to domestic enterprise, M&A financing, Cross-border Trade Express, entrusted L/C opening and global financing.

During the reporting period, our Singapore Branch took advantage of the opportunities arising from the healthy development of Sino-Singaporean economic and trade relations and actively supported the Chinese enterprises in penetrating the Singaporean and other Southeast Asian markets while helping the Singaporean enterprises thrive in Singapore and China. While focusing on the cross-border financial services and Singapore’s local business, it managed to win the recognition of its customers and industrial peers with innovative products and services. During the reporting period, our Singapore Branch realised the operating income of USD10,867,700 and a profit before tax of USD3,581,400.

Luxembourg Branch

Established in 2015, the Luxembourg Branch of the Company is positioned as an important cross-border financial platform in European continent. It provides diversified services including corporate deposits, corporate loans, project financing, trade financing, M&A financing, M&A advisory, bond underwriting and asset management for the Chinese enterprises going global and the enterprises brought in from Europe. It is committed to establishing a private banking platform of the Company in Europe on the basis of the superior businesses of the parent bank combined with the special advantages of Luxembourg.

During the reporting period, the Luxembourg Branch adapted itself to changes in the relevant policies, exploited market opportunities such as M&A financing, and achieved steady business growth by improving operation efficiency and strengthening its cooperation with other banks and financial institutions at home and abroad. During the reporting period, our Luxembourg Branch realised the operating income of €5,755,000.

London Branch

Established in 2016, the London Branch of the Company is the first branch approved to be established in the United Kingdom among all the PRC joint-stock commercial banks and also the first branch established in the United Kingdom directly by a bank in Mainland China since the founding of the PRC. It mainly focuses on corporate banking business and provides customers with diversified corporate banking products and services, such as deposits, loans (including bilateral loans, syndicated loans, trade finance and cross-border M&A financing), settlement and asset custody. It also engages in interbank transaction of funds, bonds and foreign exchange trading, and conducts funds clearing and asset transfer with other financial institution customers. For more than two years since its launch, our London Branch has operated in compliance with regulatory requirements. Its business has developed steadily.

During the reporting period, our London Branch carried on its innovative business development. It derived a considerable amount of foreign exchange trading business on behalf of customers through asset business not only on a continuous basis of proceeding traditional businesses such as accepting guarantees from domestic enterprise as security for loans granted to overseas entity and accepting guarantees from overseas entity as security for loans granted to domestic enterprise, but also in terms of new business offerings such as time deposits, mortgage loans, development loans, standby L/C re-issuance and confident letter opening. During the reporting period, our London Branch realised an operating income of USD8,264,000 and a profit before tax of USD3,693,000.

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Sydney Branch

Established in 2017, the Sydney Branch of the Company is the first branch approved to be established in Australia among all the PRC joint-stock commercial banks. Relying on the economic and trade exchanges between China and Australia, it proactively participates in the extensive cooperation between the two countries in the fields of energy, minerals, trade and infrastructure development, facilitates the cooperation between the enterprises of the two countries, proactively serves and promotes the economic exchange and development of the two countries, and offers its customers the diversified financial products and services such as cross-border corporate finance, funds clearing, financial market, trade finance and cash management. The establishment of the Sydney Branch further expanded and improved the Company's global presence, forming a global service network across four continents: Asia, Europe, America and Australia.

During the reporting period, on the basis of compliant operation, the Sydney Branch endeavored to promote various business developments, and proactively established a steady and sustainable development model with its own characteristics. During the reporting period, the Sydney Branch realised the operating income of AUD7,079,400.

3.10.6 Wing Lung Group

Founded in 1933, Wing Lung Bank has a registered capital of HK\$1.161 billion, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of Wing Lung Bank and its subsidiaries comprise deposit-taking, lending, private banking and wealth management, investment, securities, credit cards, NET banking, WLB Wintech mobile banking services, global cash management, syndicated loans, corporate financing, documentary bills, leasing and hire purchase loans, foreign exchange, insurance agency, mandatory provident fund, insurance brokerage and general insurance underwriting, property management and trustee, nominee and asset management services. At present, Wing Lung Bank has a total of 35 banking offices in Hong Kong, four branches and sub-branches in Mainland China, one branch in Macau, and three overseas branches, located respectively in Los Angeles and San Francisco, the United States and the Cayman Islands. As at the end of the reporting period, the total number of employees of Wing Lung Group is 1,847.

During the reporting period, profit attributable to the shareholders of Wing Lung Group was HK\$1.253 billion, representing a decrease of 34.71% as compared with the corresponding period of the previous year, mainly due to the credit impairment losses increasing by 391.16% as compared with the corresponding period of the previous year to HK\$779 million as result of impact of certain large customers. It recorded a net interest income of HK\$2.225 billion, representing an increase of 26.43% as compared with the corresponding period of the previous year. The net interest margin was 1.65 %, up by 26 basis points. The net non-interest income was HK\$790 million, representing a decrease of 31.99% as compared with the corresponding period of the previous year, mainly due to a significant decrease in net trading gain and net gain on disposal of financial assets at FVOCI as compared with the corresponding period of the previous year. Net operating income was HK\$3.015 billion, representing an increase of 3.20% as compared with the corresponding period of the previous year. The cost-to-income ratio was 34.06%, representing an increase of 2.43 percentage points as compared with the corresponding period of the previous year.

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As at the end of the reporting period, the total assets of Wing Lung Group amounted to HK\$302.866 billion, representing an increase of 1.37% as compared with the end of the previous year. Total equity attributable to shareholders amounted to HK\$33.987 billion, representing an increase of 2.58% as compared with the end of the previous year. Total loans and advances to customers (including trade bills) amounted to HK\$161.294 billion, representing an increase of 3.23% as compared with the end of the previous year, the non-performing loan ratio (including trade bills) was 0.62%. Deposits from customers amounted to HK\$217.039 billion, representing an increase of 2.88% as compared with the end of the previous year. The loan-to-deposit ratio was 70.15%, up by 0.46 percentage point as compared with the end of the previous year. As at the end of the reporting period, the common equity Tier-1 capital ratio of Wing Lung Group was 12.42%, its Tier-1 capital ratio was 14.58%, its total capital ratio was 17.76% and its average liquidity coverage ratio for the first quarter and second quarter of 2018 was 147.40% and 150.76%, respectively, all above regulatory requirements.

For detailed financial information on Wing Lung Group, please refer to the 2018 interim results of Wing Lung Bank, which is published on the website of Wing Lung Bank (www.winglungbank.com).

3.10.7 CMB Financial Leasing

CMB Financial Leasing is one of the five pilot bank-affiliated financial leasing firms approved by the State Council. It was established and wholly owned by the Company with a registered capital of RMB6.0 billion and 261 employees in March 2008. CMB Financial Leasing has adhered to its operation and development goal of “internationalisation, professionalisation and differentiation”, carried out its international presence of aircraft and vessel assets, upgraded key national equipment manufacturing under the professional support, responded to “The Belt and Road” initiative by provision of differentiated service and launched the financial solutions for the eight sectors of energy, equipment manufacturing, aviation, shipping, energy saving and environmental protection, health industry, public utilities and culture, and leasing. It satisfies different needs in respect of procurement of equipment, promotion of sales, revitalisation of assets, balancing of tax liabilities and improvement of financial structure.

As at the end of the reporting period, the total assets of CMB Financial Leasing amounted to RMB172.047 billion, and its net assets amounted to RMB16.781 billion. During the reporting period, CMB Financial Leasing achieved a net profit of RMB1.101 billion.

3.10.8 CMB International Capital

Established in 1993, CMB International Capital is a wholly-owned subsidiary of the Company in Hong Kong, with a registered capital of HK\$4.129 billion and 398 employees. Currently, the business scope of CMB International Capital and its subsidiaries mainly covers asset management, wealth management, stock trading and structured finance.

As at the end of the reporting period, the total assets of CMB International Capital amounted to HK\$19.768 billion, and its net assets amounted to HK\$7.574 billion. During the reporting period, CMB International Capital recorded a net profit of HK\$559 million. During the reporting period, CMB International Capital had a market share of 5.85% in terms of IPO underwriting in Hong Kong, representing an increase of 1.45 percentage points as compared with the corresponding period of the previous year, and ranking second among all investment banks.

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3.10.9 China Merchants Fund

Established on 27 December 2002, China Merchants Fund had a registered capital of RMB1.31 billion and 368 employees (excluding those of its subsidiaries). As at the end of the reporting period, the Company had 55% of equity interests in China Merchants Fund. The business scope of China Merchants Fund covers fund establishment, fund management and other operations approved by the CSRC.

As at the end of the reporting period, the total assets of China Merchants Fund amounted to RMB7.105 billion, and its net assets amounted to RMB4.398 billion. The total size of the asset management business (including China Merchants Fund and its subsidiaries) amounted to RMB943.176 billion. During the reporting period, China Merchants Fund realised a net operating profit of RMB422 million.

3.10.10 CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance was established in Shenzhen in August 2003, and is the first Sino-foreign joint venture life insurance company established after China's entry into the World Trade Organisation (WTO), with a registered capital of RMB2.8 billion and 3,120 employees. As at the end of the reporting period, the Company had 50% of equity interests in CIGNA & CMB Life Insurance. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance and accident injury insurance, as well as the reinsurance of the above insurances.

As at the end of the reporting period, the total assets of CIGNA & CMB Life Insurance amounted to RMB42.500 billion, and its net assets amounted to RMB5.185 billion. During the reporting period, CIGNA & CMB Life Insurance realised a net profit of RMB547 million.

3.11 Risk Management

The Company, through transforming itself into a "Light-operation Bank", stepped up the construction of a risk management system focusing on risk-adjusted value creation under the principles of "Comprehensive, Professional, Independent and Balanced Management". The Risk and Compliance Management Committee of the Head Office is responsible for reviewing and determining the most significant bank-wide risk management policies on risk preferences, strategies, policies and authorisations approved by the Board of Directors.

During the reporting period, against the backdrop of complicated and volatile economic environment at home and abroad and the increasing risk in bank operations, the Company continued to improve its overall risk management system and proactively overcome and prevent all kinds of risk.

3.11.1 Credit risk management

During the reporting period, the Company kept abreast of the macroeconomic and financial development and adhered to its management philosophy of "Quality Goes First Based on Compliance and Risk Control (合規為根、風險為本、質量為先)" while conducting overall planning, making breakthroughs in key areas and steadily advancing the transformation of its risk management from seeking "temporary treatments" to imposing "final solutions", aiming to establish itself as a "leading risk management bank".

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Firstly, constantly improving the comprehensive risk management mechanism while improving and completing the concentrated risk management mechanism. The Company has been improving its risk management organisation structure and further enhancing its risk management specialty and independence while optimising the risk preference conveyance and management mechanism, improving the identification, assessment and management mechanism of major risks of China Merchants Bank; strengthening cross-risk management, standardising product innovation activities, retuning to its origin of customer service, penetrating into underlying assets, thereby further strengthening the overall risk management. **Secondly, keeping up the optimisation of the asset portfolio while steadily making adjustment to its asset structure.** While adhering to its asset portfolio allocation objectives, the Company has been closely following the national major strategies, focusing on the synergic development of Beijing-Tianjin-Hebei, the construction of the Xiong'an New Area, the construction of the Yangtze River Economic Zone, and the development of the Guangdong-Hong Kong-Macao Bay Area. Through strict implementation of the customer list management at the Head Office and its branches for strategic customers and industrial customers which should be compressed and expelled and adopting a differential management strategy, the Company has been constantly consolidating its customer base. **Thirdly, strengthening the control of asset quality and risk screening and follow-up in the key areas while preventing and controlling risks in a perspective manner.** The Company conducted careful screening of risks in respect of major corporate customers, and implemented specified control measures for each and every customer. Attaching importance to overdue loans and tightening its control on them, the Company optimised loan structure, and monitored major risk emergencies in real-time. **Fourthly, optimising the portfolio of non-performing assets while accelerating the disposal of risk associated assets.** The Company has been strengthening clearing and collection of non-performing assets in cash while continuously promoting the write-off of non-performing assets and securitisation of assets, proactively exploring debt-to-equity conversion and continuously improving its non-performing assets management capacity. **Fifthly, consolidating the management foundation while comprehensively promoting the whole-process credit optimisation.** By organising special group of experts, sorting out and optimising key processes of credit operation, the Company has reconstructed its credit process management system and completed the supporting system revision and authorisation adjustment, thus reinforcing the whole-process of risk management and control. **Sixthly, actively deepening the application of Fintech and upgrading the professional techniques on risk management.** The Company introduced Big Data and Fintech, improved the automation, process, specialisation and concentration of its credit operation while promoting project development and optimisation such as risk rating and early warning models and implementing the expected loss and allowances models under IFRS 9, thus further enhancing the practicability and accuracy of the Company's quantified risk management tools.

During the reporting period, the Company's non-performing loans have been further reduced and asset quality has been effectively controlled through the above-mentioned measures. For more information about the Company's credit risk management, please refer to Note 40(a) of the financial statements.

3.11.2 Country risk management

Country risks represent the risks of economic, political and social changes and developments in a country or region that may cause borrowers or debtors in that country or region to be unable or unwilling to fulfil their obligations to banks, or incur loss to commercial presences of banks in that country or region, or other loss to banks in that country or region. Country risk may arise from deteriorating economic conditions, political and social upheavals, nationalisation or expropriation of assets, and government repudiation of external indebtedness, foreign exchange controls and currency depreciation in a country or region.

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The Company has incorporated country risk management into its overall risk management system. In accordance with relevant regulatory requirements, the Company dynamically monitored the change in its country risk profile, used its sovereign rating model to set limit on its country risk with reference to external rating results, and evaluated its country risk and made allowances on a quarterly basis. As at the end of the reporting period, the assets of the Company exposed to the country risk remained insignificant, and this indicated low country risk ratings. Moreover, we have made adequate allowances for country risk according to the regulatory requirements. As a result, the country risk will not have material effect on our operations.

3.11.3 Market risk management

The Company's market risk arises from trading book and banking book, and the interest rate risk and exchange rate risk are the major market risks facing the Company.

Interest rate risk management

Trading book

The Company uses various risk indicators, including volume indicators, market risk value indicators (VaR, covering various interest rate risk factors relating to trading book business), interest rate stress testing loss indicators, interest rate sensitivity indicators and accumulative loss indicators, to measure and manage the interest rate risk of trading book. The interest rate risk factors used for risk measurement cover all businesses under the trading book, and are comprised of around 110 yield curves of interest rates or bonds. VaR includes general VaR and stress VaR, which are both calculated using the historical simulation model and adopt a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. The interest rate stress testing scenario includes the parallel move, steep move and twisted change of interest rates at various degrees and various unfavorable market scenarios designed on the characteristics of investment portfolios. Among which, the extreme interest rate scenario may move up to 300 basis points and cover the unfavorable conditions of extreme market. Major interest rate sensibility indicator reflects the duration of bonds and the change in the market value of bonds and interest rate derivatives when an interest rate fluctuates unfavorably by 1 basis point. As for daily risk management, the scope of authorisation and the market risk limits for the interest rate risk businesses under the trading book are set in accordance with the risk appetite, operation plan and risk prediction of the Board of Directors at the beginning of the year for which the market risk management department is responsible for daily monitoring and continuous reporting.

At the beginning of 2018, the Central Bank implemented the inclusive interest rate cut and the provision of temporary reserves. From April to June, the Central Bank implemented two interest rate cuts again. The liquidity of Renminbi was maintained at a stable level, and the price of fund fell as compared with the corresponding period of the previous year. The bond market recovered significantly, and the interest rate yields of bonds with various durations dropped by 60 basis points in general. The Federal Reserve raised interest rates in March and June, respectively. The domestic liquidity of USD remained relatively stable but the price of funds rose, and the spread between domestic and foreign currencies narrowed. Under the recovery of the bond market, the RMB bond portfolio for trading book of the Company recorded good returns. Meanwhile, the interest rate risk for trading book was maintained at a stable level, and various risk indicators were within the target range.

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Banking book

The Company mainly adopts the re-pricing gap analysis, duration analysis, benchmark-correlated analysis, scenario simulation and other methods to measure and analyse the interest rate risk of banking book on a monthly basis. The re-pricing gap analysis mainly monitors the distribution of re-pricing duration and mismatch of assets and liabilities; the duration analysis monitors the duration of major product types and the change in the duration gap of assets and liabilities of the whole Bank; the benchmark-correlated analysis assesses the benchmark risk existing between different pricing benchmark interest rate curves, as well as between the different duration points on each of such curves based on the benchmark-correlated coefficients calculated using our internal models; the scenario simulation is the major approach for the Company to conduct interest rate risk analysis and measurement, which comprise a number of ordinary scenarios and stress scenarios, including the interest rate benchmark impact, the parallel move and the change in the shape of yield curves, the extreme changes in interest rates in history, the most possible changes in interest rates in the future as judged by experts and other scenarios. The net interest income (NII) for the future one year and the changes in economic value (EVE) indicator are calculated through simulation of the scenario of changes in interest rates. The NII fluctuation ratio and the EVE fluctuation ratio of certain scenarios are included into the interest rate risk limit system of the whole Bank.

During the reporting period, the tune of the monetary policy of the Central Bank gradually changed from "reasonably stable" to "reasonably adequate". The short-term market interest rate was relatively stable with a slight drop. The medium and long-term yields were affected by various internal and external factors with narrowed spreads between interest rates with different durations. The Company closely monitored the change of external interest rate environment and conducted in-depth analysis and forecast on the market interest rate development through macro-modeling while making corresponding adjustment to the strategy of the proactive management of interest rate risks and constantly optimising the structure of assets and liabilities, as a result of which the results of stress test showed that the various indicators stayed within the limits and early warning values, and the bank account-related interest rate risks were confined at a relatively low level.

In May 2018, the CBIRC issued the Guidelines on the Management of Interest Rate Risk of Bank Book of Commercial Banks (Revised). After analysing the differences between each item in the Guidelines, the Company has generally satisfied the regulatory requirements in measurement methods, quantitative risk level, system and model, only appropriate supplements and improvements for existing policies and systems would be required subsequently before the duly implementation of the Guidelines.

Exchange rate risk management**Trading book**

The Company uses the risk indicators such as risk exposure indicator, market risk value indicator (VaR, covering risk factors such as foreign exchange rate related to the trading book business), the loss indicator for exchange rate scenario stress test, exchange rate sensitivity indicator and accumulated loss indicator to conduct risk measurement and daily management. As for risk measurement, the selected exchange rate risk factor is applied on spot and forward prices in all transaction currencies under the Trading Book. Market value risk indicators comprise general market value at risk and stress market value at risk, and are calculated using historical simulation based on a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. Exchange rate stress test scenarios cover 5%, 10%, 15% or more adverse changes in each of transaction currency against RMB, increased volatility of foreign exchange options. Major exchange rate sensitivity indicators are Delta, Gamma, Vega and other indicators for exchange rate derivatives. For daily management, we set limits on authority associated with exchange rate risks under the trading book and relevant market exposure at the beginning of the year according to the risk appetite, business planning and risk forecast of the Board of Directors, and delegated the Market Risk Management Department to perform daily monitoring and on-going reporting.

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During the reporting period, the exchange rate of the USD against the RMB showed three stages. From January to March, it quickly went down from 6.5 to 6.3. From April to mid-June, it slowly rose to 6.4. In late June, it quickly rose to above 6.6. The volatility of USD reached a high point in February, and then gradually declined. Although it rebounded in late June, it was still lower than the high point at the beginning of the year. Due to the intensification of exchange rate fluctuations, the Company strengthened the control of quota indicators such as the exposure of the proprietary business and stop-loss, and all exchange rate risk indicators were maintained within the target range.

Banking book

The primary exchange rate risk of banking book of the Company comes from the maturity mismatch between foreign currency positions of its non-RMB denominated assets and liabilities. Through rigorous management of exchange rate risk, the Company has kept the exchange rate risk of its banking book within the acceptable range.

The data for measurement of exchange rate risk of banking book of the Company was derived mainly from database, and the Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, and other methods for measurement and analysis. The foreign exchange exposure measurement primarily uses the short-sided method and the correlation approach; scenario simulation and stress test analysis are two important exchange rate risk management tools of the Company for managing foreign exchange rate risk in respect of fluctuation of all currency exchange rates, including the standard scenario, historical scenario, forward scenario and stress scenario. Based on the forward exchange rate fluctuation and the scenario of historical extreme fluctuations, each scenario could simulate the impact on the Company's profit or loss. The effects of certain scenarios on the profit and loss and its percentage to net capital as a limit indicator are taken as reference in the daily management. The Company conducts back-testing and assessment on relevant model parameters on a regular basis to verify the effectiveness of measurement models.

The Company regularly measures and analyses foreign exchange exposure of banking book and scenario simulation results, monitors and reports exchange rate risk on a monthly basis under its quota limit framework, and adjusts its foreign exchange exposure accordingly based on the trend of foreign exchange movements, so as to mitigate the relevant foreign exchange risk of banking book. The Audit Department of the Company is responsible for overall auditing of our exchange rate risk.

During the reporting period, the Company paid close attention to exchange rate movements, took initiative to analyse the impact of exchange rate changes in light of the macroeconomic conditions at home and abroad, and proposed a balance sheet optimisation program as a reasonable reference for the management's decision-making. In the face of the new international economic landscape in 2018, the Company strengthened its analysis of the macro-economy in the United States and Sino-U.S. trade frictions, and further optimised measurement of the bank account-related exchange risks. At present, the exchange rate risk of the Company is generally stable with all the core limit indicators, general scenario and stress testing results satisfying the regulatory limit requirement.

For more information about the Company's market risk management, please refer to Note 40(b) in the financial statements.

3.11.4 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or failed internal procedures, incompetent personnel or IT systems, or external events.

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company continued to improve its operational risk management. Firstly, the Company strengthened the control of risks associated with key areas. The Company continued with its risk monitoring and evaluation of key areas, continuously optimised the off-site monitoring model, and issued timely risk warnings for problem customers. Secondly, the Company optimised and improved its management tools. Through the inspection of key risk indicators, the Company examined and adjusted indicators from various perspectives including personnel, process and external events. Thirdly, the Company strengthened the management of outsourcing-related risk. The Company further improved its outsourcing-related risk management mechanism, standardised the management of outsourcing projects, conducted on-site risk assessment for outsourced suppliers in key areas, and urged them to implement the rectification. Fourthly, the Company strengthened the management of risks related to compliance in credit investigation. The Company organised the whole Bank to conduct self-inspection and self-correction on credit investigation compliance. Fifthly, the Company strengthened the management of information technology risk. New availability indicators of important systems were added so as to achieve full coverage monitoring of the Company's important system availability, conduct analysis on operation of important systems, IT project launches and external IT risk events, and strengthened information security management and control. Sixthly, the Company accelerated the establishment of business continuity management system. The Company promoted the development of business continuity drills, strengthened emergency switching drills for important business systems, and established the liaison officer mechanism for the IT drill business department.

3.11.5 Liquidity risk management

The Company's cautious attitude towards liquidity risk is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company are basically in line with regulatory requirements and its own management requirements.

In the first half of 2018, the central bank maintained a prudent and neutral monetary policy and the liquidity remained moderate. The liquidity of the Company was basically in line with that of the market, and overall liquidity was relatively stable due to steady growth in deposits from customers and the progressive investment of assets. As at the end of the reporting period, the Company's liquidity coverage ratio was 135.38%¹⁰, representing 45.38 percentage points higher than the minimum requirement of CBIRC. The stress test¹¹ conducted for local currency and foreign currencies at light, medium and heavy levels all reached their respective minimum sustainable requirements of no less than 30 days, leading to a better contingency buffer capacity for both local currency and foreign currencies. 12.5% (2017: 15.0%) of the total RMB deposits and 5% (2017: 5%) of the total foreign currency deposits were required to be placed with the PBOC.

10 The liquidity coverage ratio is an external regulatory indicator – the legal person calibre

11 The stress test is the Company's internal management indicator – the domestic calibre

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In response to the market environment and the liquidity profile of the Company, the Company implemented the following measures to enhance liquidity management. Firstly, the Company continued to optimise the asset and liability structure, strengthened the exploration of proprietary deposits, reasonably arranged credit progress and promoted coordinated growth of deposits and loans. Secondly, the Company conducted liability taking in a comprehensive manner and through various channels, expanded diversified financing channels and flexibly conducted short-, medium and long-term active liability taking according to its own liquidity profile and market interest rate trend, including proactively participating in the medium-term lending facility from and the operation in the open market launched by the Central Bank, and launched the issuance of financial debts as the appropriate opportunities arose. Thirdly, the Company conducted in-depth refined forward-looking liquidity risk management. By using quantitative modeling and dynamic measurement and calculation, the Company enhanced its research and judgment in macro-economy and the dynamic prediction on the liquidity of the whole Bank, so as to improve proactive risk management and proactively laid down investment and financing strategies. Fourthly, the Company further improved the management of treasurer's daily liquidity, enhanced the monitoring and management of fund gap, optimised financing capability assessment mechanism and strengthened the management, training and assessment of funding positions of branches. Fifthly, the Company strengthened liquidity risk management of business lines. Specifically, as for standalone business lines such as bills business and wealth management business, the Company set separate liquidity risk limit and enhanced the matching management of its assets and liabilities.

In May 2018, the CBIRC formally issued the Administrative Measures on Liquidity Risk of Commercial Banks. After analysing the differences between each item, the Company has generally satisfied the regulatory requirements in management policies, measurement and monitoring, only further supplements and improvements for existing liquidity risk management system with reference to the above-mentioned administrative measures would be required subsequently.

Please refer to Note 40(c) of the financial statements for more details of the liquidity risk management of the Company.

3.11.6 Reputational risk management

Reputational risk refers to the risk that the Company might be negatively evaluated by relevant interested parties due to the Company's operations, management and other activities or external incidents.

Reputational risk management is an important part of the corporate governance and the overall risk management system of the Company, covering all activities, operations and businesses undertaken by the Company and its subsidiaries. The Company established and formulated the reputational risk management system and relevant requirements and took initiatives to effectively prevent the reputational risk and respond to any reputational incidents, so as to reduce loss and negative impact to the greatest extent.

During the reporting period, the Company launched a visual public opinion management system, which realised 7*24 hours of network-wide public opinion monitoring and pre-warning and real-time dynamic data analysis, which effectively improved public opinion monitoring efficiency and optimised the linked responding process of the Head Office and branches. Furthermore, through cooperation with third-party monitoring agencies, the Company also launched overseas media public opinion monitoring, so as to know the development of overseas public opinions, timely respond to reputation events, and further strengthened the Company's reputation risk management outside the Mainland China.

3.11.7 Compliance risk management

Compliance risk refers to the risk of being subject to legal sanctions, regulatory punishments, material financial losses, and reputational loss as a result of the failure to observe the laws, rules and standards. The Board of Directors of the Company is ultimately responsible for the compliance of the operating activities, and delegates the Risk and Capital Management Committee under the Board of Directors to supervise the compliance risk management. The Risk and Compliance Management Committee of the Head Office is the organisation to manage compliance risk of the whole company under the senior management. The Company has established a comprehensive and effective compliance risk management system, optimised the organisational management structure which comprises the risk and compliance management committees, compliance supervisors, compliance officers and legal and compliance departments under the Head Office and its branches, and compliance supervisors at branch and sub-branch levels, improved the three lines of defence for compliance risk management and the double-line reporting mechanism, and achieved effective management and control of compliance risk by improving the operation mechanism of the compliance risk management and the risk management expertise and processes.

At present, in order to win the uphill battle of guarding against and defusing financial risks, regulatory agencies have stepped up their supervision, and increased regulatory inspection and punishment while monitoring policies were frequently issued. During the reporting period, the Company proactively adapted to the new normal of strong supervision and severe punishment, strictly implemented various regulatory policies and system requirements, and further strengthened compliance risk management by adopting the following management measures of internal control compliance: conducting in-depth rectification of “market disorders in the banking industry” and establishing a long-term mechanism to curb the persistent problem of disorders according to the requirements of CBIRC and the specific arrangements of the Company’s implementation plan; strengthening the understanding of polices and the circulation and delivery of new regulations, identifying and assessing the compliance risks associated with new products, new businesses and major projects, and supporting value innovation on the premise of legal compliance; rectifying and improving relevant internal compliance according to new regulatory regulations and practically promoting the implementation of the system on that basis; carrying out the in-depth compliance and case study warning training, strengthening management of employees’ behaviors and investigations on their abnormal behaviors, fully implementing the record and registration for non-compliance behaviors of staff, implementing quantitative management for slight non-compliances of staff and further promoting staff’s awareness of compliance and law-abiding operations; building a comprehensive supervision and inspection mechanism, continuously enhancing efficiency of rectification of issues and violation accountability and increasing the intensity and weight of assessment on internal control and compliance to ensure the effectiveness and seriousness of internal control and compliance.

3.11.8 Anti-money laundering management

The Company has established a relatively sound anti-money laundering internal control system. The Company has formulated a full set of anti-money laundering management system based on the requirements of relevant laws and regulations on anti-money laundering and according to its own actual conditions. It has also developed and launched a comparatively sound anti-money laundering system and established a dedicated anti-money laundering team to carry out anti-money laundering compliance management, anti-money laundering list screening and the monitoring of suspicious transactions.

Report of the Board of Directors

During the reporting period, the Company actively fulfilled its anti-money laundering duties and took various measures to ensure the compliance and effectiveness of its anti-money laundering. These actions included but not limited to continuously carrying out “risk elimination”, conducting in-depth inspection on various types of money laundering risks; improving the due diligence procedures of customers, implementing Notice of the People’s Bank of China on Strengthening the Work of Identifying Anti-Money Laundering Customers (Yin Fa [2017] 235) and other regulatory policies; continuously strengthening the management and control of high-risk customers, implementing the follow-up risk control measures for suspicious transactions reported; actively promoting the application of new technologies in the field of anti-money laundering, continuing to optimise the anti-money laundering system; and continuously strengthening anti-money laundering management of business and products to ensure that anti-money laundering risk control is effectively embedded in business systems and processes.

3.12 Profit Appropriation

The profit appropriation plan for 2017

The profit appropriation plan of the Company for 2017 was considered and approved at its 2017 Annual General Meeting held on 27 June 2018.

10% of the audited net profit of the Company for 2017 of RMB64.510 billion, equivalent to RMB6.451 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the risk assets, equivalent to RMB2.760 billion, was appropriated to the general reserve. Based on the then total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company declared a cash dividend of RMB0.84 (tax included) for every share to all shareholders of the Company whose names appear on the register, payable in Renminbi for holders of A Shares and in Hong Kong Dollars for holders of H Shares. The retained profits will be carried forward to the next year. In 2017, the Company did not transfer any capital reserve into share capital.

The Board of Directors of the Company has already implemented the above-mentioned dividend appropriation plan. For further information, please refer to the relevant announcement(s) published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, respectively.

Interim Dividend Appropriation for 2018

The Company would not distribute interim dividend for the first half of 2018, nor would it transfer any capital reserve into share capital (for January-June 2017: nil).

3.13 Social Responsibility

In 2018, adhering to the social responsibility philosophy of “committing to sustainable finance, enhancing sustainable value and contributing to sustainable development”, the Company will continue to improve social responsibility management mechanism, fully communicate with stakeholders, fulfill corporate social responsibility and make contributions to the sustainable development of our economy and society. During the reporting period, the Company actively pushed forward “Promotion Activities of Financial Knowledge” and attached great importance to the service designed to protect the interest of financial consumers and the financial knowledge education of youngsters. The Company also continuously advocated the idea of “monthly donation” and “happy donation” and promoted public charity from everybody.

Report of the Board of Directors

Environment Information

During the reporting period, the Company adapted to the national policy orientation and followed the domestic economic transformation trend. The Company promoted green finance from the strategic level of the whole Bank, continuously improved the green credit policy, guided credit resources to give priority to environmental protection, and created green value. For details of granting green credit of the Company, please refer to Section 3.10.2. Meanwhile, the Company put the business process of “Paperless” as its priority, implemented the concept of environmental protection throughout its work processes, and pushed forward energy conservation and emission reduction.

Targeted poverty alleviation

The Company carried out in-depth targeted poverty alleviation and actively fulfilled its social responsibilities. In 2018, the Company continuously supported the development of Wuding County and Yongren County in Yunnan. As at the disclosure date of this report, the Company organised its employees to make donations of RMB11.0472 million for these two counties. Meanwhile, the Company organised training courses about pomegranate planting technology for local farmers through intensive teaching of pomegranate cultivation techniques and methods, conducted on-site instruction in farmers’ plantations, introduced scientific management and prevention methods, and put forward the development of the targeted poverty alleviation project of “Pomegranates for Poverty Relief” (愛心石榴) by virtue of E-commerce poverty alleviation model.

By Order of the Board

Li Jianhong

Chairman of the Board of Directors

24 August 2018

Important Events

4.1 Purchase, sale or repurchase of listed securities of the Company

Neither the Company nor its subsidiaries had purchased, sold or repurchased any of the Company's listed securities during the reporting period.

4.2 Disciplinary actions imposed on the Company, Directors, Supervisors, or senior management

So far as the Company is aware, during the reporting period, none of the Company, its Directors, Supervisors or senior management was subject to investigation by relevant authorities or to mandatory measures imposed by judicial organs or disciplinary inspection authorities. None of them had been referred or handed over to judicial authorities or prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor had they been prohibited from engagement in the securities markets, determined as unqualified, and been publicly censured by any stock exchange. The Company has not been penalised by other regulatory bodies which have significant impact on the operations of the Company.

4.3 Explanation about the integrity profile of the Company

So far as the Company is aware, there has not been any significant court judgment with which the Company has not complied, nor has there been any significant case that left an outstanding debt during the reporting period.

4.4 Significant connected transactions

4.4.1 Overview of connected transactions

A majority of the continuing connected transactions of the Company met the de minimis exemption and the non-exempt continuing connected transactions fulfilled the reporting and announcement requirements under the Hong Kong Listing Rules.

4.4.2 Non-exempt continuing connected transactions

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company were those conducted by the Company with CMFM and its associates (hereinafter referred to as "CMFM Group"), CM Securities and its associates (hereinafter referred to as "CM Securities Group") and Anbang Insurance Group Co., Ltd. and its associates (hereinafter referred to as "Anbang Insurance Group"), respectively.

On 13 December 2016, with the approval of the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with CMFM Group for the years of 2017, 2018 and 2019 had been RMB2.5 billion, RMB3.8 billion and RMB5.8 billion, respectively. On 20 March 2018, with the approval from the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with Anbang Insurance Group for the years of 2018, 2019 and 2020 had been RMB1.5 billion. On 24 August 2018, with the approval from the Board of Directors of the Company, the Company announced that the annual cap for the continuing connected transactions with Anbang Insurance Group for the year of 2018 had been adjusted from RMB1.5 billion to RMB2.0 billion. On 27 March 2018, with the approval from the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with CM Securities Group for the years of 2018, 2019 and 2020 had been RMB500 million. Further details were disclosed in the *Announcements on Continuing Connected Transactions* issued by the Company on 13 December 2016, 20 March 2018, 27 March 2018 and 24 August 2018, respectively.

Important Events

CMFM Group

The fund distribution agency service provided by the Company to CMFM Group constituted a continuing connected transaction of the Company under the Hong Kong Listing Rules.

At the end of the reporting period, the Company and CM Securities held 55% and 45% of the equity interest in CMFM, respectively. CMFM Group is a connected person of the Company under the Hong Kong Listing Rules.

On 13 December 2016, the Company entered into a Business Co-operation Agreement with CMFM for a term commencing on 1 January 2017 and expiring on 31 December 2019. The agreement was entered into on normal commercial principles after an arm's length negotiation. The agency service fees payable by CMFM Group will be calculated at the rates specified in the fund offering documents and/or the offering prospectuses and shall be settled to the Company under the agreement.

The annual cap for the continuing connected transactions between the Company and CMFM Group for 2018 was RMB3.8 billion, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements under the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

During the reporting period, the continuing connected transactions between the Company and CMFM Group amounted to RMB757 million (unaudited).

CM Securities Group

The third-party custody business, collective/targeted wealth management services, collective/targeted wealth management products agency and custody and other services provided by the Company to CM Securities Group constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

At the end of the reporting period, China Merchants Group indirectly held 29.97% of the equity interest in the Company (by way of equity interests held, right of control or relationship of parties acting in concert). As China Merchants Group also held 44.09% equity interest in CM Securities, CM Securities Group is a connected person of the Company pursuant to the Hong Kong Listing Rules.

On 27 March 2018, the Company entered into a Business Co-operation Agreement with CM Securities for a term commencing on 1 January 2018 and expiring on 31 December 2020. The agreement was entered into on normal commercial terms after an arm's length negotiation, pursuant to which CM Securities Group shall pay the service fees to the Company at the normal market prices.

The annual cap for the continuing connected transactions between the Company and CM Securities Group for 2018 was RMB500 million, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

During the reporting period, the continuing connected transactions between the Company and CM Securities Group amounted to RMB135 million (unaudited).

Important Events

Anbang Insurance Group

The insurance products agency sales services provided by the Company to Anbang Insurance Group constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As at the end of the reporting period, Anbang Property & Casualty Insurance Company Ltd. is one of the Company's substantial shareholders. Anbang Insurance Group Co., Ltd. held 97.56% of the equity interest in Anbang Property & Casualty Insurance Company Ltd., and indirectly held more than 10% of the equity interest in the Company. According to the Hong Kong Listing Rules, Anbang Insurance Group is a connected person of the Company.

On 20 March 2018, the Company entered into a Business Co-operation Agreement with Anbang Insurance Group Co., Ltd. for a term commencing on 1 January 2018 and expiring on 31 December 2020. The Agreement was entered into on normal commercial terms after an arm's length negotiation, pursuant to which Anbang Insurance Group shall pay the service fees to the Company at the normal market prices.

The annual cap for the continuing connected transactions between the Company and Anbang Insurance Group for the year of 2018 is RMB2.0 billion, of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules were less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

During the reporting period, the continuing connected transactions between the Company and Anbang Insurance Group amounted to RMB783 million (unaudited).

4.5 Material litigations and arbitrations

Several lawsuits were filed during the daily operation of the Company, most of which were filed proactively for the purpose of recovering non-performing loans. As at the end of the reporting period, the number of pending litigation and arbitration cases in which the Company was involved totalled 320 with an aggregate of principal and interest of approximately RMB876 million. The Company believes that none of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

4.6 Material contracts and their performance

Significant events in respect of holding in custody, contracting, hiring or leasing of assets

During the reporting period, none of the material contracts of the Company involving holding in custody, contracting or hiring or leasing of any assets of other companies by the Company or vice versa was entered into beyond the normal business scope of the Bank.

Significant guarantees

Guarantee business falls within the Company's ordinary course of business. During the reporting period, save for the financial guarantees entered into in our normal business scope approved by the CBIRC, there was no other significant discloseable guarantees.

4.7 Significant investments

During the reporting period, the Board of Directors of the Company had considered and approved the resolution regarding the establishment of an asset management subsidiary, for which the Company has currently been promoting its various application and preparation works steadily.

During the reporting period, CMB Financial Leasing had made a capital increment of RMB4.5 billion to its wholly-owned subsidiary, Zhaoyin Aviation and Shipping Financial Leasing Co., Ltd. (招銀航空航運金融租賃有限公司) and completed the relevant procedures for the change in industrial and commercial registration. Upon completion of such capital increment, the registered capital of Zhaoyin Aviation and Shipping Financial Leasing Co., Ltd. has been changed to RMB5.0 billion.

4.8 Use of funds by related parties

As far as the Company is aware, during the reporting period, neither the substantial shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through (among others) any related transactions not entered into on an arm's length basis.

4.9 The engagement of accounting firms for 2018

Upon the approval at the 2017 Annual General Meeting of the Company, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic accounting firm of the Company and its domestic Tier-1 subsidiaries for 2018 and engaged Deloitte Touche Tohmatsu, an overseas member of Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international accounting firm of the Company and its overseas Tier-1 subsidiaries for 2018. The term of the above engagements is one year. For further details, please refer to the documents for 2017 Annual General Meeting and relevant announcements regarding the resolutions of the Company.

4.10 Explanation on changes in accounting policies

For details of the changes in the accounting policies of the Company and the new international financial reporting standards implemented by it during the reporting period, please refer to Note 2(a)(i) of the financial statements.

4.11 Review of interim results

Deloitte Touche Tohmatsu, our external auditor, has reviewed the interim financial statements of the Company prepared in accordance with the International Accounting Standards and the disclosure requirements of the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of Directors of the Company has reviewed and agreed with the financial results and financial statements of the Company for the period ended 30 June 2018.

4.12 Publication of interim report

The Company prepared the interim report in both English and Chinese versions in accordance with the International Accounting Standards and the Hong Kong Listing Rules. These reports are available on the websites of Hong Kong Stock Exchange and the Company. In the event of any discrepancies in interpretation between the English and Chinese versions, the Chinese version shall prevail.

The Company also prepared the interim report in Chinese version in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for interim reports, which is available on the websites of Shanghai Stock Exchange and the Company.

Changes in Shares and Information on Shareholders

5.1 Changes in the ordinary shares of the Company during the reporting period

	31 December 2017		Changes in the No. of shares during the reporting period	30 June 2018	
	No. of shares	Percentage (%)	No. of shares	No. of shares	Percentage (%)
1. Shares subject to trading moratorium	-	-			
2. Shares not subject to trading moratorium	25,219,845,601	100.00			
(1) Ordinary shares in RMB (A Shares)	20,628,944,429	81.80			
(2) Foreign shares listed domestically	-	-			
(3) Foreign shares listed overseas (H Shares)	4,590,901,172	18.20			
(4) Others	-	-			
3. Total shares	25,219,845,601	100.00			

As at the end of the reporting period, the Company had a total of 258,592 holders of ordinary shares, including 224,585 holders of A Shares and 34,007 holders of H Shares. Neither the holders of A Shares nor the holders of H Shares are subject to trading moratorium.

Based on the publicly available information and so far as the Company's Directors were aware, as at the end of the reporting period, the Company had met the public float requirement of the Hong Kong Listing Rules.

Changes in Shares and Information on Shareholders

5.2 Top ten holders of ordinary shares and top ten holders of ordinary shares whose shareholdings are not subject to trading moratorium

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital		Changes in the reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
				(%)	Type of shares			
1	HKSCC Nominees Ltd. ⁽¹⁾	/	4,551,822,373	18.05	H Shares	7,812,841	-	Unknown
2	China Merchants Steam Navigation Co., Ltd.	State-owned legal person	3,289,470,337	13.04	A Shares not subject to trading moratorium	-	-	-
3	Anbang Property & Casualty Insurance Company Ltd. – traditional products ⁽²⁾	Domestic legal person	2,704,596,216	10.72	A Shares not subject to trading moratorium	-	-	-
4	China Ocean Shipping Company Limited	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	-	-	-
5	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	1,258,542,349	4.99	A Shares not subject to trading moratorium	-	-	-
6	China Merchants Finance Investment Holdings Co. Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading moratorium	-	-	-
7	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	-	-	-
8	China Securities Finance Corporation Limited	Domestic legal person	911,565,539	3.61	A Shares not subject to trading moratorium	50,501,559	-	-
9	COSCO Shipping (Guangzhou) Co., Ltd.	State-owned legal person	696,450,214	2.76	A Shares not subject to trading moratorium	-	-	-
10	China Communications Construction Company Limited	State-owned legal person	450,164,945	1.78	A Shares not subject to trading moratorium	-	-	-

Changes in Shares and Information on Shareholders

Notes:

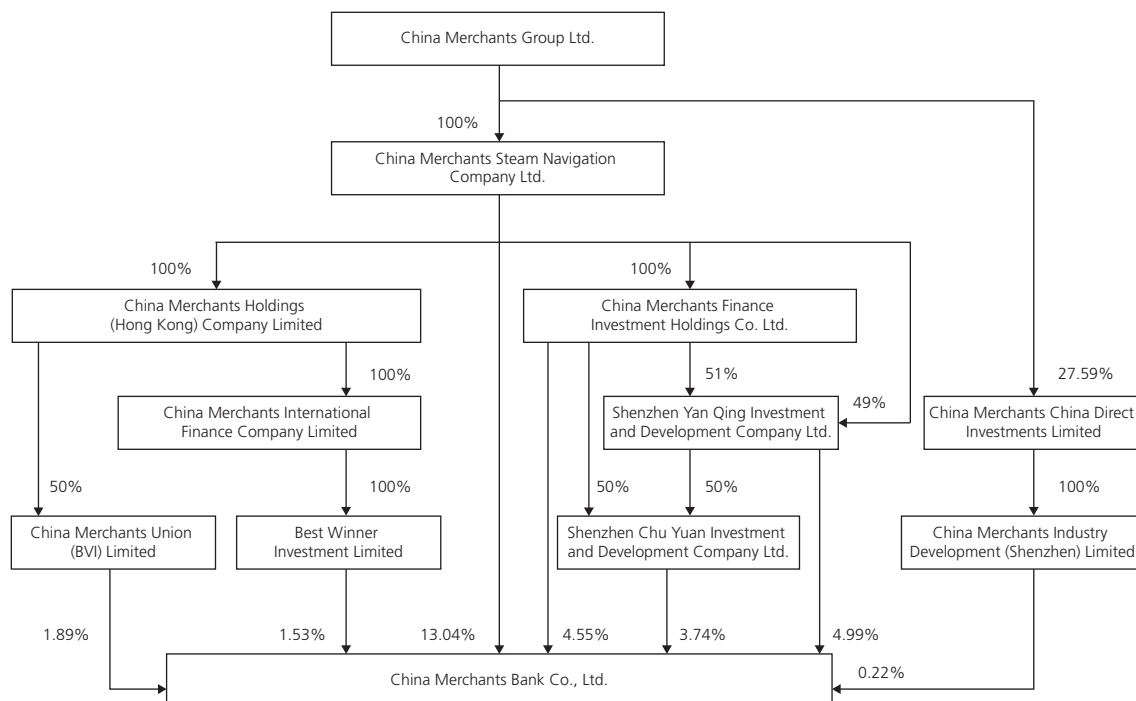
- (1) Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of the Company trading on the transaction platform of HKSCC Nominees Ltd.
- (2) Please refer to section 5.3.2 for details of the proposed transfer by Anbang Property & Casualty Insurance Company Ltd. of its 1,258,949,171 A shares in the Company to Hexie Health Insurance Co., Ltd.
- (3) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., China Merchants Finance Investment Holdings Co. Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are subsidiaries of China Merchants Group Ltd. China Ocean Shipping Company Limited and COSCO Shipping (Guangzhou) Co., Ltd. are controlled by China COSCO Shipping Corporation Limited. The Company is not aware of any affiliated relationships among other shareholders.
- (4) The above shareholders do not hold the shares of the Company through credit securities accounts.

5.3 Information on substantial shareholders

5.3.1 Information on the Company's largest shareholder and its parent company

1. China Merchants Steam Navigation Company Ltd., the largest shareholder of the Company, was founded on 22 February 1992 in Beijing with a registered capital of RMB7.0 billion. Its legal representative is Li Jianhong. It is a wholly owned subsidiary of China Merchants Group Ltd..
2. China Merchants Group Ltd. directly holds the 100% equity interests of China Merchants Steam Navigation Company Ltd. and is the parent company of the Company's largest shareholder, with a registered capital of RMB14.1425 billion. Its legal representative is Li Jianhong. China Merchants Group Ltd. is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council.

The Company does not have any controlling shareholder and de facto controller. As at the end of the reporting period, the equity relationship among the Company, its largest shareholder and the parent company of the Company's largest shareholder is illustrated as follows:



Changes in Shares and Information on Shareholders

As at the end of the reporting period, China Merchants Group Ltd. indirectly held an aggregate of 29.97% of the total shares of the Company, consisting of 26.78% of A Shares and 3.20% of H Shares of the Company. It did not pledge any of its shares in the Company. (In this report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding.)

5.3.2 Information on other shareholders holding more than 5% shares of the Company

1. Anbang Property & Casualty Insurance Company Ltd.. As at the end of the reporting period, Anbang Property & Casualty Insurance Company Ltd. (hereinafter referred to as "Anbang Insurance") in aggregate held 11.63% shares (including its 0.91% H shares) in the Company, and it did not pledge any of its shares in the Company. Anbang Insurance was established on 31 December 2011, with a registered capital of RMB37.0 billion. Its legal representative is Ye Jing.

Anbang Insurance Group Co., Ltd.. As at the end of the reporting period, Anbang Insurance Group Co., Ltd. held 97.56% equity interests in Anbang Insurance and was its controlling shareholder and ultimate beneficiary. Anbang Insurance Group Co., Ltd. was established on 15 October 2004, with a registered capital of RMB61.9 billion.

Anbang Insurance entered into a "Share Transfer Agreement Concerning China Merchants Bank Co., Ltd." with Hexie Health Insurance Co., Ltd. ("Hexie Health") on 29 June 2018, pursuant to which Anbang Insurance shall transfer its 1,258,949,171 A shares in the Company to Hexie Health. After the Share Transfer, Anbang Insurance will hold 1,445,647,045 A shares and 229,498,500 H shares in the Company, which together accounted for 6.64% of the total share capital of the Company. Hexie Health will hold 1,258,949,171 A shares in the Company, which accounted for 4.99% of the total share capital of the Company. Anbang Insurance and its party acting in concert, Hexie Health, together will hold 2,704,596,216 A shares and 229,498,500 H shares in the Company, which together accounted for 11.63% of the total share capital of the Company. The percentage of their total shareholdings in the Company has remained unchanged. Completion of the procedures for share transfer processed within the Shanghai Branch of China Securities Depository and Clearing Corporation Limited in respect of the changes in shareholdings is still subject to the compliance confirmation by the Shanghai Stock Exchange with uncertainties in the relevant matters. For more details, please refer to the relevant announcement issued by the Company on 2 July 2018.

2. China Ocean Shipping Company Limited. As at the end of the reporting period, China Ocean Shipping Company Limited held 6.24% shares in the Company. China Ocean Shipping (Group) Company (the predecessor of China Ocean Shipping Company Limited) was established on 22 October 1983, with a registered capital of RMB16.191 billion. Its legal representative is Xu Lirong.

China COSCO Shipping Corporation Limited. As at the end of the reporting period, China COSCO Shipping Corporation Limited held 100% equity interests in China Ocean Shipping Company Limited and is its controlling shareholder. The ultimate de facto controller of China COSCO Shipping Corporation Limited is State-owned Assets Supervision and Administration Commission of the State Council. China COSCO Shipping Corporation Limited was established in February 2016, with a registered capital of RMB11.0 billion. Its legal representative is Xu Lirong. As at the end of the reporting period, China COSCO Shipping Corporation Limited in aggregate held 9.97% shares in the Company indirectly through China Ocean Shipping Company Limited, COSCO Shipping Financial Holdings Co., Limited, COSCO Shipping (Guangzhou) Co., Ltd., Guangzhou Haining Maritime Technology Consulting Co., Ltd. (廣州海寧海務技術諮詢有限公司), COSCO Shipping (Shanghai) Co., Ltd. (中遠海運(上海)有限公司) and Shenzhen Sanding Oil Transport Trading Co., Ltd. (深圳市三鼎油運貿易有限公司), all being its subsidiaries. There was no pledge of the shares of the Company.

Changes in Shares and Information on Shareholders

5.3.3 Other substantial shareholders under the regulatory calibre

1. China Communications Construction Company Limited. As at the end of the reporting period, China Communications Construction Company Limited held 1.78% of the shares of the Company and was a shareholder which has appointed supervisor in the Company. China Communications Construction Company Limited was established on 8 October 2006 with a registered capital of RMB16.174 billion, and its legal representative is Liu Qitao. As at the end of the reporting period, China Communications Construction Group (Limited) held 63.84% of the equity of China Communications Construction Company Limited, and therefore is the controlling shareholder of China Communications Construction Company Limited, its ultimate de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council. China Communications Construction Group (Limited) was established on 8 December 2005 with a registered capital of RMB5.855 billion, and its legal representative is Liu Qitao. As at the end of the reporting period, indirectly through its subsidiaries, namely China Communications Construction Company Limited, CCCC Shanghai Dredging Co., Ltd., CCCC Guangzhou Dredging Co., Ltd., CCCC Fourth Harbor Engineering Co. Ltd., Zhen Hua (Shenzhen) Engineering Co., Ltd. and CCCC Third Harbor Consultants Co. Ltd., China Communications Construction Group (Limited) in aggregate held 2.27% shares in the Company, and there was no pledge of the shares of the Company.
2. SAIC Motor Corporation Limited. As at the end of the reporting period, SAIC Motor Corporation Limited held 1.71% of the shares of the Company and was a shareholder which has appointed its supervisor(s) in Company. It did not pledge any of its shares in the Company. SAIC Motor Corporation Limited has a registered capital of RMB11.683 billion, and its legal representative is Chen Hong. As at the end of the reporting period, Shanghai Automotive Industry Corporation (Group) held 71.24% of the shares of SAIC Motor Corporation Limited, and therefore is the controlling shareholder of SAIC Motor Corporation Limited, and its de facto controller is the State-owned Assets Supervision and Administration Commission of Shanghai City. Shanghai Automotive Industry Corporation (Group) was established on 1 March 1996 with a registered capital of RMB21.599 billion, and its legal representative is Chen Hong.
3. Hebei Port Group Co., Ltd.. As at the end of the reporting period, Hebei Port Group Co., Ltd. held 1.20% of the shares of the Company and was a shareholder which has appointed its supervisor(s) in the Company. Hebei Port Group Co., Ltd. was established on 28 August 2002 with a registered capital of RMB8.0 billion. The legal representative is Cao Ziyu and the de facto controller is the State-owned Assets Supervision and Administration Commission of the People's Government of Hebei Province.

Hebei Port Group Co., Ltd. intends to make a public offering of convertible corporate bonds with a total amount not exceeding RMB1.5 billion (including RMB1.5 billion). Pursuant to regulations such as the "Provisions on Issuance of Convertible Corporate Bonds by Shareholders of Listed Companies (Trial)" (《上市公司股東發行可交換公司債券試行規定》) promulgated by China Securities Regulatory Commission, Hebei Port Group Co., Ltd. shall pledge the A Shares it held of the Company as collaterals for the issuance of convertible bonds. It is expected that the number of its A Shares in the Company pledged as collaterals will not exceed 100 million shares, accounting for not more than 0.397% of the total share capital of the Company. The "Resolution on the Filing of Pledge of Shares of the Company Involved in Issuance of Convertible Bonds by Hebei Port Group Co., Ltd." (《關於河北港口集團有限公司發行可交換債券涉及質押本公司股份事宜備案的議案》) was considered and passed at the 28th meeting of the Tenth Session of the Board of Directors of the Company. For more details, please refer to the relevant announcement issued by the Company on 13 July 2018. As at the disclosure date of this report, the above-mentioned convertible corporate bonds were not issued.

Changes in Shares and Information on Shareholders

5.4 Substantial shareholders' and other persons' interests and short positions in shares and underlying shares under Hong Kong laws and regulations

As at the end of the reporting period, as far as the Company is aware, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO (In the report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of total issued ordinary shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	6,697,550,412	1		
		Long	Others	55,196,540	1		
				6,752,746,952		32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Steam Navigation Co., Ltd.	A	Long	Beneficial owner	3,289,470,337			
		Long	Interest of controlled corporation	3,408,080,075	1		
		Long	Others	55,196,540	1		
				6,752,746,952		32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Finance Investment Holdings Co., Ltd.	A	Long	Beneficial owner	1,147,377,415			
		Long	Interest of controlled corporation	2,202,555,520	1		
		Long	Others	55,196,540	1		
			3,405,129,475		16.51	13.50	
Best Winner Investment Limited	A	Long	Beneficial owner	58,147,140	1	0.28	0.23
	H	Long	Beneficial owner	328,776,923	1	7.16	1.30

Changes in Shares and Information on Shareholders

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of total issued ordinary shares (%)
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	1,258,542,349	1		
		Long	Interest of controlled corporation	944,013,171	1		
				2,202,555,520		10.68	8.73
Anbang Property & Casualty Insurance Company Ltd.	A	Long	Beneficial owner	2,704,596,216		13.11	10.72
	H	Long	Beneficial owner	229,498,500		4.99	0.91
China Ocean Shipping Company Limited	A	Long	Beneficial owner	1,574,729,111		7.63	6.24
BlackRock, Inc.	H	Long	Interest of controlled corporation	235,146,382	2	5.12	0.93
		Short	Interest of controlled corporation	207,000	2	0.004	0.001
JPMorgan Chase & Co.	H	Long	Beneficial owner	26,465,550			
		Long	Investment manager	125,880,225			
		Long	Trustee	16,080			
		Long	Approved lending agent	78,690,591			
				231,052,446	3	5.03	0.92
		Short	Beneficial owner	2,037,902	3	0.04	0.01
Pagoda Tree Investment Company Limited (中國華馨投資有限公司)	H	Long	Interest of controlled corporation	477,903,500	4	10.41	1.89
Compass Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	4	10.41	1.89
CNIC Corporation Limited	H	Long	Interest of controlled corporation	477,903,500	4	10.41	1.89
Verise Holdings Company Limited	H	Long	Interest of controlled corporation	477,903,500	4	10.41	1.89
China Merchants Union (BVI) Limited	H	Long	Beneficial owner	477,903,500	4	10.41	1.89

Changes in Shares and Information on Shareholders

Notes:

- (1) Details of China Merchants Group Ltd. and its subsidiaries' interests in the Company are listed on section "5.3.1 Information on the Company's largest shareholder and its parent company" of this report.
- (2) BlackRock, Inc. was deemed to hold interests in a total of 235,146,382 H Shares (long position) and 207,000 H Shares (short position) in the Company (of which, 2,195,500 H Shares (long position) and 130,000 H Shares (short position) were held through cash settled unlisted derivatives) by virtue of its control over a number of corporations, which were all indirectly wholly-owned by BlackRock, Inc. except for the following:
 - (2.1) BR Jersey International Holdings L.P. was indirectly held as to 86% by BlackRock, Inc.. BR Jersey International Holdings L.P. held interests in the Company through the following companies:
 - (2.1.1) BlackRock Japan Co., Ltd. (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 14,120,339 H Shares (long position) in the Company.
 - (2.1.2) BlackRock Asset Management Canada Limited held 608,500 H Shares (long position) in the Company. BlackRock Asset Management Canada Limited was indirectly owned as to 99.9% by BR Jersey International Holdings L.P..
 - (2.1.3) BlackRock Investment Management (Australia) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 1,030,000 H Shares (long position) in the Company.
 - (2.1.4) BlackRock Asset Management North Asia Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 2,039,683 H Shares (long position) in the Company.
 - (2.2) BlackRock Group Limited was held as to 90% by BR Jersey International Holdings L.P. (referred to in (2.1)). BlackRock Group Limited held equity interest in the Company through its direct or indirect wholly-owned companies as follows:
 - (2.2.1) BlackRock (Netherlands) B.V. held 560,500 H Shares (long position) in the Company.
 - (2.2.2) BlackRock Advisors (UK) Limited held 592,557 H Shares (long position) in the Company.
 - (2.2.3) BlackRock International Limited held 1,234,998 H Shares (long position) in the Company.
 - (2.2.4) BlackRock Asset Management Ireland Limited held 28,542,328 H Shares (long position) in the Company.
 - (2.2.5) BLACKROCK (Luxembourg) S.A. held 2,299,292 H Shares (long position) in the Company.
 - (2.2.6) BlackRock Investment Management (UK) Limited held 14,982,895 H Shares (long position) in the Company.
 - (2.2.7) BlackRock Asset Management Deutschland AG held 249,731 H Shares (long position) in the Company.
 - (2.2.8) BlackRock Fund Managers Limited held 7,595,273 H Shares (long position) in the Company.
 - (2.2.9) BlackRock Life Limited held 6,546,098 H Shares (long position) in the Company.
 - (2.2.10) BlackRock Asset Management (Schweiz) AG held 29,500 H Shares (long position) in the Company.
- (3) JPMorgan Chase & Co. was deemed to hold interests in a total of 231,052,446 H shares (long position) and 2,037,902 H shares (short position) in the Company by virtue of its control over a number of corporations.

Changes in Shares and Information on Shareholders

The entire interests and short positions of JPMorgan Chase & Co. in the Company included a lending pool of 78,690,591 H shares. Besides, 5,890,835 H shares (long position) and 2,037,902 H shares (short position) were held through derivatives as follows:

1,982,835 H shares (long position) and 403,000 H shares (short position)	– through physically settled listed derivatives
1,372,450 H shares (short position)	– through cash settled listed derivatives
1,118,000 H shares (long position) and 262,452 H shares (short position)	– through physically settled unlisted derivatives
2,790,000 H shares (long position)	– through cash settled unlisted derivatives

(4) Pagoda Tree Investment Company Limited was deemed to hold interests in a total of 477,903,500 H shares in the Company held by China Merchants Union (BVI) Limited by virtue of its wholly-owned subsidiary of Compass Investment Company Limited:

(4.1) China Merchants Union (BVI) Limited held 477,903,500 H shares (long position) in the Company. Verise Holdings Company Limited was deemed to hold interests in a total of 477,903,500 H shares in the Company held by China Merchants Union (BVI) Limited by virtue of holding 50% interest in China Merchants Union (BVI) Limited.

(4.2) Verise Holdings Company Limited was wholly-owned by CNIC Corporation Limited. Therefore, CNIC Corporation Limited was deemed to hold the 477,903,500 H shares in the Company which Verise Holdings Company Limited was deemed to hold.

(4.3) Compass Investment Company Limited (referred to in (4)) was deemed to hold the 477,903,500 H shares in the Company which CNIC Corporation Limited was deemed to hold by virtue of holding 98.9% interest in CNIC Corporation Limited.

(4.4) The 477,903,500 H shares referred to in (4) and (4.1) to (4.3) represented the same shares.

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) who has any interests or short positions in the shares and underlying shares of the Company as at the end of the reporting period as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

5.5 Issuance and listing of securities

During the reporting period, the Company did not issue new ordinary shares.

For details of the issuance and listing of preference shares of the Company, please refer to section 5.6 of this report.

During the reporting period, the Company did not have any corporate bonds listed on a stock exchange by way of public issuance.

For the issuance of other bonds of the Company and its subsidiaries, please refer to Note 31 of the financial statements.

The Company did not issue any internal staff shares.

Changes in Shares and Information on Shareholders

5.6 Preference shares

5.6.1 Issuance and listing of preference shares

Pursuant to the approvals by the regulatory authorities, the Company issued non-cumulative perpetual offshore preference shares on 25 October 2017 (for details, please refer to the table below). The offshore preference shares of the issuance were listed on the Hong Kong Stock Exchange on 26 October 2017. The gross proceeds from the offering of the offshore preference shares was USD1.0 billion and, after deduction of the expenses relating to the issuance, has fully been used to replenish the Company's additional Tier 1 Capital.

Type of offshore preference shares	Stock code	Dividend yield	Total amount issued	Proceeds raised per share	Number of shares issued
Preference Shares in U.S. dollar	04614	4.40%	USD1,000,000,000	USD20	50,000,000 Shares

Pursuant to the approvals by the regulatory authorities, the Company issued 275 million domestic preference shares by way of private placement on 22 December 2017. The domestic preference shares of the issuance have been listed and traded on the integrated business platform of Shanghai Stock Exchange since 12 January 2018, with the stock abbreviation of "Zhao Yin You 1 (招銀優1)" and the stock code of 360028, and the number of shares listed was 275 million. The total proceeds raised from the issuance of the domestic preference shares amounted to RMB27,500,000,000. The net proceeds raised from the issuance of the domestic preference shares amounted to RMB27,467,750,000, after deduction of the expenses relating to the issuance, has fully been used to replenish the Company's additional Tier 1 Capital.

For further information, please refer to the relevant announcement(s) published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, respectively.

5.6.2 Number of shareholders of preference shares and their shareholdings

As at the end of the reporting period, the Company had a total of 13 shareholders of preference shares (or their nominees), including 1 shareholder of offshore preference shares (or its nominee) and 12 shareholders of domestic preference shares.

As at the end of the reporting period, the shareholdings of the Company's top ten shareholders of offshore preference shares (or their nominees) were as follows:

Serial No.	Name of shareholder	Type of shareholder	Type of shares	Changes in the reporting period (share)	Shares held at the end of the period (share)	Percentage of shareholdings (%)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	The Bank of New York Depository (Nominees) Limited	Overseas legal person	Offshore preference shares	-	50,000,000	100	-	Unknown

Changes in Shares and Information on Shareholders

Notes:

- (1) The shareholdings of shareholders of preference shares are calculated based on the information listed in the register of shareholders of preference shares maintained by the Company.
- (2) As the issuance is an offshore non-public issuance, the information listed in the register of shareholders of preference shares is the information on the nominees of the placees.
- (3) The Company is not aware of any affiliated relationship or action in concert among the above shareholders of preference shares and the top ten shareholders of ordinary shares.
- (4) "Percentage of shareholdings" represents the percentage of the number of offshore preference shares held by shareholders of preference shares to the total number of offshore preference shares.

As at the end of the reporting period, the shareholdings of the Company's top ten shareholders of domestic preference shares (or their nominees) were as follows:

Serial No.	Name of shareholders	Type of shareholders	Type of shares	Changes in the reporting period (share)	Shares held at the end of the period (share)	Percentage of shareholdings (%)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	China Mobile Communications Corporation	State-owned legal person	Domestic preference shares	-	106,000,000	38.55	-	-
2	CCB Trust Co., Ltd.	State-owned legal person	Domestic preference shares	-	30,000,000	10.91	-	-
3	BOC Asset Management Co., Ltd. (中銀資產管理有限公司)	Others	Domestic preference shares	-	25,000,000	9.09	-	-
4	China National Tobacco (Henan Province) Company	State-owned legal person	Domestic preference shares	-	20,000,000	7.27	-	-
	Ping An Property & Casualty Insurance Company of China, Ltd.	Others	Domestic preference shares	-	20,000,000	7.27	-	-
6	China Everbright Bank Company Limited	Others	Domestic preference shares	-	19,000,000	6.91	-	-
7	China National Tobacco (Sichuan Province) Company	State-owned legal person	Domestic preference shares	-	15,000,000	5.45	-	-
	China National Tobacco (Anhui Province) Company	State-owned legal person	Domestic preference shares	-	15,000,000	5.45	-	-
9	China Construction Bank Corporation, Guangdong Branch	State-owned legal person	Domestic preference shares	-	10,000,000	3.64	-	-
10	China National Tobacco (Liaoning Province) Company	State-owned legal person	Domestic preference shares	-	5,000,000	1.82	-	-
	Changjiang Pension Insurance Co., Ltd.	State-owned legal person	Domestic preference shares	-	5,000,000	1.82	-	-
	China Resources SZITIC Trust Co., Ltd.	State-owned legal person	Domestic preference shares	-	5,000,000	1.82	-	-

Changes in Shares and Information on Shareholders

Notes:

- (1) The shareholdings of preference shareholders are calculated based on the information listed in the register of shareholders of preference shares maintained by the Company.
- (2) China National Tobacco (Henan Province) Company, China National Tobacco (Sichuan Province) Company, China National Tobacco (Anhui Province) Company and China National Tobacco (Liaoning Province) Company are all wholly-owned subsidiaries of China National Tobacco Corporation. Save for the above, the Company is not aware of any affiliated relationship or action in concert among the above shareholders of preference shares or between the above shareholders of preference shares and the Company's top ten shareholders of ordinary shares.
- (3) "Percentage of shareholdings" represents the percentage of the number of domestic preference shares held by shareholders of preference shares to the total number of domestic preference shares.

5.6.3 Dividend distribution of preference shares

As of the end of the reporting period, as the dividend payment date(s) of the Company's offshore or domestic preference shares in issue had not yet arrived, no distribution of dividend for preference shares was made by the Company.

5.6.4 Repurchase or conversion of preference shares

During the reporting period, there had been no repurchase and conversion of preference shares.

5.6.5 Restored voting rights of preference shares

During the reporting period, the voting rights of the Company's domestic and offshore preference shares in issue had not been restored.

5.6.6 Accounting policies for preference shares and the reason of adoption

The Company made accounting judgments over its preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the "International Financial Reporting Standard 9-Financial Instruments" and the "International Financial Reporting Standard 7-Financial Instruments: Disclosures" promulgated by International Accounting Standards Board. As the preference shares issued and outstanding of the Company carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as other equity instruments.

Directors, Supervisors, Senior Management, Employees, and Organisational Structure

6.1 Directors, Supervisors and senior management

Name	Gender	Date of Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)
Li Jianhong	Male	1956.5	Chairman	2014.8-2019.6	-	-
			Non-Executive Director	2014.7-2019.6	-	-
Fu Gangfeng	Male	1966.12	Vice Chairman	2018.7-2019.6	-	-
			Non-Executive Director	2010.8-2019.6	-	-
Tian Huiyu	Male	1965.12	Executive Director	2013.8-2019.6	-	110,000
			President and Chief Executive Officer	2013.9-2019.6	-	-
Sun Yueying	Female	1958.6	Non-Executive Director	2001.4-2019.6	-	-
Li Hao	Male	1959.3	Executive Director, First Executive	2007.6-2019.6	-	100,000
			Vice President and Chief Financial Officer	(note 1)	-	-
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6-2019.6	-	-
Su Min	Female	1968.2	Non-Executive Director	2014.9-2019.6	-	-
Zhang Jian	Male	1964.10	Non-Executive Director	2016.11-2019.6	-	-
Wang Daxiong	Male	1960.12	Non-Executive Director	2016.11-2019.6	-	-
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1-2019.6	-	-
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2011.7-(note 2)	-	-
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2012.7-(note 2)	-	-
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2011.11(note 2)	-	-
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2015.1-2019.6	-	-
Wong See Hong	Male	1953.6	Independent Non-Executive Director	2017.2-2019.6	-	-
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8-2019.6	-	90,000
Fu Junyuan	Male	1961.5	Shareholder Supervisor	2015.9-2019.6	-	-
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2016.6-2019.6	-	-
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6-2019.6	-	-
Jin Qingjun	Male	1957.8	External Supervisor	2014.10-2019.6	65,800	65,800
Ding Huiping	Male	1956.6	External Supervisor	2016.6-2019.6	-	-
Han Zirong	Male	1963.7	External Supervisor	2016.6-2019.6	-	-
Wang Wangqing	Male	1964.9	Employee Supervisor	2018.7-2019.6	-	60,000
Huang Dan	Female	1966.6	Employee Supervisor	2015.3-2019.6	-	-
Tang Zhihong	Male	1960.3	Executive Vice President	2006.5-2019.6	-	80,000
Zhu Qi	Male	1960.7	Executive Vice President	2008.12-2019.6	-	-
Liu Jianjun	Male	1965.8	Executive Vice President	2013.12-2019.6	-	80,000
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7-present	-	80,000
Wang Liang	Male	1965.12	Executive Vice President	2015.1-2019.6	-	80,000
			Secretary of Board of Directors	2016.11-2019.6	-	-
Zhao Ju	Male	1964.11	Executive Vice President	2015.2-2019.6	-	-
Wang Jianzhong	Male	1962.10	Member of the CPC Committee	2017.4-present	-	80,000
Shi Shunhua	Male	1962.12	Member of the CPC Committee	2017.4-present	-	85,000
Li Xiaopeng	Male	1959.5	Former Vice Chairman	2015.11-2018.1	-	-
			Former Non-Executive Director	2014.11-2018.1	-	-
Xu Lizhong	Male	1964.3	Former Employee Supervisor	2016.6-2018.7	-	-
Lian Bolin	Male	1958.5	Former Executive Assistant President	2012.6-2018.7	-	70,000

Notes:

- (1) Mr. Li Hao has been the Chief Financial Officer of the Company since March 2007, an Executive Director of the Company since June 2007, and the First Executive Vice President of the Company since May 2013.
- (2) The term of office of Mr. Wong Kwai Lam expired in July 2017, the term of office of Ms. Pan Yingli expired in November 2017 and the term of office of Mr. Pan Chengwei expired in July 2018. According to the relevant resolutions of the 2017 Annual General Meeting of the Company, Mr. Li Menggang and Mr. Liu Qiao were newly elected as independent non-executive directors of the Tenth Session of the Board of Directors, replacing Mr. Wong Kwai Lam and Ms. Pan Yingli respectively. The qualifications of Mr. Li Menggang and Mr. Liu Qiao as independent Non-Executive Directors are subject to the approval of the China Banking and Insurance Regulatory Commission. Meanwhile, the Company is in the process of selecting a candidate of the new independent director to take up the position of Mr. Pan Chengwei. Pursuant to the relevant requirements of the "Guiding Opinions on Establishing the Independent Director System in Listed Companies" (《關於在上市公司建立獨立董事制度的指導意見》), not less than one third of the total Directors shall be Independent Directors in a listed company. Therefore, Mr. Wong Kwai Lam, Ms. Pan Yingli and Mr. Pan Chengwei will continue to fulfill their duties until the new independent directors take office.
- (3) As of the date of this report, Ms. Huang Dan holds 45,000 A shares of the Company.
- (4) As of the date of this report, Mr. Xu Lizhong holds 50,000 A shares of the Company.
- (5) None of the directors, supervisors and senior management listed in the above table holds share options or has been granted restricted shares of the Company.

6.2 Appointment and resignation of Directors, Supervisors and senior management

According to the relevant resolutions of the 2017 Annual General Meeting of the Company, Mr. Zhou Song was newly elected as a non-executive director of the Tenth Session of the Board of Directors of the Company. Mr. Li Menggang and Mr. Liu Qiao were newly elected as independent non-executive directors of the Tenth Session of the Board of Directors of the Company. The qualifications of Mr. Zhou Song, Mr. Li Menggang and Mr. Liu Qiao as non-executive director and independent non-executive directors are subject to the approval by the China Banking and Insurance Regulatory Commission.

In January 2018, Mr. Li Xiaopeng resigned as the Vice Chairman and Non-Executive Director of the Company due to other business commitment. Mr. Fu Gangfeng was elected as Vice Chairman at the 22nd meeting of the Tenth Session of the Board of Directors of the Company. The qualification of Mr. Fu Gangfeng as Vice Chairman was approved by the China Banking and Insurance Regulatory Commission in July 2018.

Mr. Wong Kwai Lam and Ms. Pan Yingli tendered their resignation letters to the Company due to expiry of their tenure in May 2018. The resignation of Mr. Wong Kwai Lam and Ms. Pan Yingli will take effect following the approval of the qualifications of Mr. Li Menggang and Mr. Liu Qiao as directors by the China Banking and Insurance Regulatory Commission.

Xu Lizhong, former employee supervisor, tendered his resignation letter to the Company in July 2018 due to other work commitment. According to the resolutions passed at Worker's Congress of the Company held on 18 July 2018, Mr. Wang Wanqing was newly elected as employee supervisor of the Tenth Session of the board of Supervisors of the Company and Mr. Xu Lizhong ceased to be the employee supervisor of the Company.

In July 2018, Mr. Lian Bolin ceased to be the executive assistant president of the Company due to his age.

For details of the above-mentioned matters, please refer to the relevant announcements published by the Company in "China Securities Journal", "Shanghai Securities News" and "Securities Times", as well as the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

11. Earnings per share

Notes to the Unaudited Interim Financial Report
For the Six Months ended 30 June 2018
(Expressed in millions of Renminbi unless otherwise stated)

13. Balances with banks and other financial institutions

	30 June 2018	31 December 2017
Balances in Mainland China		
– Banks	59,531	49,093
– Other financial institutions	4,370	2,942
Subtotal	63,901	52,035
Balances outside Mainland China		
– Banks	31,804	24,937
– Other financial institutions	66	62
Subtotal	31,870	24,999
Total	95,771	77,034
Less: Loss/impairment allowances		
– Banks	(121)	(116)
– Other financial institutions	(18)	–
Subtotal	(139)	(116)
Total	95,632	76,918

Movements of allowances for impairment losses

	2018	2017
Balance as at last year end	116	196
Adjustments under IFRS 9	22	–
As at 1 January	138	196
Charge/(release) for the period	1	(80)
As at 30 June/31 December	139	116

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

14. Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

	30 June 2018	31 December 2017
Placements in Mainland China		
– Banks	54,880	74,098
– Other financial institutions	114,769	52,747
Subtotal	169,649	126,845
Placements outside Mainland China		
– Banks	42,603	27,918
Total	212,252	154,763
Less: Loss/impairment allowances		
– Banks	(131)	(98)
– Other financial institutions	(176)	(37)
Subtotal	(307)	(135)
Total	211,945	154,628

(b) Analysed by residual maturity

	30 June 2018	31 December 2017
Maturing		
– Within one month (inclusive)	87,880	36,202
– Between one month and one year (inclusive)	123,289	116,526
– Over one year	776	1,900
Total	211,945	154,628

Notes to the Unaudited Interim Financial Report
For the Six Months ended 30 June 2018
(Expressed in millions of Renminbi unless otherwise stated)

14. Placements with banks and other financial institutions *(continued)*

(c) Movements of allowances for impairment losses

	2018	2017
Balance as at last year end	135	16
Adjustments under IFRS 9	49	–
As at 1 January	184	16
Charge for the period	123	119
As at 30 June/31 December	307	135

15. Amounts held under resale agreements

(a) Analysed by nature of counterparties

	30 June 2018	31 December 2017
Amounts held under resale agreements in Mainland China		
– Banks	58,112	32,365
– Other financial institutions	238,827	220,939
Subtotal	296,939	253,304
Amounts held under resale agreements outside Mainland China		
– Other financial institutions	8	–
Subtotal	296,947	253,304
Less: Loss/impairment allowances		
– Banks	(291)	(659)
– Other financial institutions	(843)	(95)
Subtotal	(1,134)	(754)
Total	295,813	252,550

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

15. Amounts held under resale agreements *(continued)*

(b) Analysed by residual maturity

	30 June 2018	31 December 2017
Maturing		
– Within one month (inclusive)	295,813	249,563
– Between one month and one year (inclusive)	–	2,987
Total	295,813	252,550

(c) Analysed by assets types as collateral

	30 June 2018	31 December 2017
Bonds	268,306	245,059
Bills	27,507	6,443
Asset management schemes	–	1,048
Total	295,813	252,550

(d) Movements of allowances for impairment losses

	2018	2017
Balance as at last year end	754	672
Adjustments under IFRS 9	610	–
As at 1 January	1,364	672
(Release)/charge for the period	(230)	82
As at 30 June/31 December	1,134	754

Notes to the Unaudited Interim Financial Report
For the Six Months ended 30 June 2018
(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and advances to customers

(a) Loans and advances to customers

	30 June 2018	31 December 2017
Loans and advances to customers at amortised cost (i)	3,469,408	3,414,612
Loans and advances to customers at FVTOCI (ii)	233,150	N/A
Loans and advances to customers at FVTPL (iii)	355	N/A
Total	3,702,913	3,414,612

(i) Loans and advances to customers at amortised cost

	30 June 2018
Corporate loans and advances	1,773,523
Retail loans and advances	1,870,840
Gross loans and advances to customers at amortised cost	3,644,363
Less: loss allowances	
– 12 months ECL	(93,971)
– life time ECL	(80,984)
Subtotal	(174,955)
Net loans and advances to customers at amortise cost	3,469,408

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and advances to customers (continued)

(a) Loans and advances to customers (continued)

(i) Loans and advances to customers at amortised cost (continued)

	31 December 2017
Corporate loans and advances	1,663,861
Discounted bills	115,888
Retail loans and advances	1,785,295
Gross loans and advances to customers	3,565,044
Less: Impairment allowances	
– Individually assessed	(33,931)
– Collectively assessed	(116,501)
Subtotal	(150,432)
Net loans and advances to customers	3,414,612

(ii) Loans and advances to customers at FVTOCI

	30 June 2018
Corporate loans and advances	7,809
Discount bills	225,341
Loans and advances to customers at FVTOCI	233,150
loss allowances	
– 12 months ECL	(97)
– life time ECL	–
Subtotal	(97)

No loss allowance is recognised in the consolidated statement of financial position for loans and advances to customers at FVTOCI as the carrying amount is at fair value.

(iii) Loans and advances to customers at FVTPL

	30 June 2018
Corporate loans and advances	355

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16. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers

Analysed by industry sector and category:

Operation in Mainland China

	30 June 2018	31 December 2017
Manufacturing	264,331	251,979
Transportation, storage and postal services	239,815	204,422
Property development	196,269	173,717
Wholesale and retail	172,881	205,884
Production and supply of electric power, heating power, gas and water	136,513	121,900
Leasing and commercial services	134,726	124,780
Construction	101,965	85,279
Telecommunications, software and IT services	69,654	67,964
Water, environment and public utilities management	68,955	65,439
Financial concerns	53,658	46,276
Mining	41,631	39,136
Others	58,831	56,720
Corporate loans and advances subtotal	1,539,229	1,443,496
Discounted bills	225,341	115,888
Residential mortgages	866,063	825,797
Credit cards	512,034	491,179
Micro-finance loans	332,857	310,969
Others	138,202	136,410
Retail loans and advances subtotal	1,849,156	1,764,355
Gross loans and advances to customers	3,613,726	3,323,739

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16. Loans and advances to customers (continued)

(b) Analysis of loans and advances to customers (continued)

Analysed by industry sector and category: (continued)

Operation outside Mainland China

	30 June 2018	31 December 2017
Property development	64,527	63,209
Financial concerns	50,696	47,198
Transport and transport equipment	35,422	25,613
Manufacturing	21,914	14,221
Wholesale and retail	13,421	13,934
Leasing and commercial services	13,316	13,444
Information technology	9,141	11,371
Production and supply of electric power, heating power, gas and water	7,439	7,065
Construction	6,334	1,937
Mining	4,008	4,211
Water, environment and public utilities management	353	419
Others	15,887	17,743
Corporate loans and advances subtotal	242,458	220,365
Residential mortgages	7,228	7,613
Credit cards	184	204
Micro-finance loans	1,818	1,747
Others	12,454	11,376
Retail loans and advances subtotal	21,684	20,940
Gross loans and advances to customers	264,142	241,305

Notes:

- (i) As at 30 June 2018, over 90% of the Group's loans and advances to customers were conducted in the PRC (unchanged compared the positions as at 31 December 2017).
- (ii) In 2018, the Group divided industry sector and category according to the newly revised "Industrial Classification for National Economic Activities" (GB/T 4754-2017) standards issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardization Administration of the People's Republic of China and has restated the corresponding comparative figures.

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16. Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses

	For six months ended 30 June 2018
At 12 December 2017	150,432
Adjustments under IFRS 9	1,088
At 1 January 2018	151,520
Charge for the period (note 8)	79,266
Release for the period (note 8)	(48,888)
Write-offs	(10,490)
Unwinding of discount	(179)
Recoveries of loans and advances previously written off	3,701
Exchange difference	122
At 30 June 2018	175,052

	For the year ended 31 December 2017			Total
	Impairment allowances for loans and advances which are collectively assessed	Impairment allowances for impaired loans and advances		
		Which are collectively assessed	Which are individually assessed	
At 1 January	70,694	10,108	29,230	110,032
Charge for the period	33,240	9,955	21,255	64,450
Release for the period	(1,005)	(1)	(3,392)	(4,398)
Write-offs	–	(8,601)	(15,682)	(24,283)
Transfer out	–	–	22	22
Unwinding of discount	–	(1)	(560)	(561)
Recoveries of loans and advances previously written off	–	2,324	3,195	5,519
Exchange difference	(212)	–	(137)	(349)
At 31 December	102,717	13,784	33,931	150,432

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16. Loans and advances to customers (continued)

(d) Finance leases receivable

The table below provides an analysis of finance leases receivable for leases of certain property and equipment in which the Group is the lessor:

	30 June 2018		
	Total minimum lease receivable	Unearned finance income	Present value of minimum lease receivable
Within 1 year (inclusive)	38,896	(5,402)	33,494
Over 1 year but within 5 years (inclusive)	86,488	(12,354)	74,134
Over 5 years	35,807	(5,739)	30,068
Subtotal	161,191	(23,495)	137,696
Less: loss allowances			
– 12 month ECL			(2,242)
– Life time ECL			(1,129)
Subtotal			(3,371)
Net investment in finance leases receivable			134,325
	31 December 2017		
	Total minimum lease receivable	Unearned finance income	Present value of minimum lease receivable
Within 1 year (inclusive)	37,172	(5,093)	32,079
Over 1 year but within 5 years (inclusive)	76,868	(11,092)	65,776
Over 5 years	32,215	(4,787)	27,428
Subtotal	146,255	(20,972)	125,283
Less: Impairment allowances			
– Individually assessed			(426)
– Collectively assessed			(2,674)
Subtotal			(3,100)
Net investment in finance leases receivable			122,183

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17. Investments

	Notes	30 June 2018	31 December 2017
Investments at FVTPL(i)	17(a)	190,850	64,796
Derivative financial assets	40(f)	24,764	18,916
Debt investments at FVTOCI	17(b)	354,081	N/A
Equity investments designated at FVTOCI	17(c)	3,282	N/A
Debt investments at amortised cost	17(d)	902,665	N/A
Available-for-sale financial assets	17(e)	N/A	383,101
Held-to-maturity investments	17(f)	N/A	558,218
Debt securities classified as receivables	17(g)	N/A	572,241
Total		1,475,642	1,597,272

- (i) As described in Note 2, the Group applied IFRS 9 since 1 January 2018, and the scope of financial assets at FVTPL is different under IFRS 9 and IAS 39.
- (ii) After initial application of IFRS 9, there is no reclassification between investments during six months ended 30 June 2018.

(a) Investments at FVTPL

	Notes	30 June 2018	31 December 2017
Financial assets held for trading	(i)	N/A	55,415
Investments designated at FVTPL	(ii)	11,463	9,381
Investments mandatorily measured at FVTPL	(iii)	179,387	N/A
Total		190,850	64,796

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17. Investments (continued)

(a) Investments at FVTPL (continued)

(i) Financial assets held for trading

	31 December 2017
Government bonds	12,286
Bonds issued by policy banks	1,317
Bonds issued by commercial banks and other financial institutions	36,085
Other debt securities	5,083
Equity investments	32
Investments in funds	401
Long position in precious metal contracts	211
Total	55,415
Bonds	
Listed inside Mainland China	35,837
Listed outside Mainland China	9,848
Unlisted	9,086
Investments in equity, funds, wealth management products and precious metal contracts	
Listed inside Mainland China	2
Listed outside Mainland China	60
Unlisted	582

(ii) Investments designated at FVTPL

	30 June 2018	31 December 2017
Government bonds	–	520
Bonds issued by policy banks	2,162	2,571
Bonds issued by commercial banks and other financial institutions	5,584	1,576
Other debt securities	3,717	4,714
Total	11,463	9,381
Bonds		
Listed inside Mainland China	–	520
Listed outside Mainland China	5,432	4,762
Unlisted	6,031	4,099

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17. Investments *(continued)*

(a) Investments at FVTPL *(continued)*

(iii) Investments mandatorily measured at FVTPL

	30 June 2018
Government bonds	7,731
Bonds issued by policy banks	2,523
Bonds issued by commercial banks and other financial institutions	31,816
Other debt securities	15,708
Non-standard assets – Bills	52,909
Equity investments	1,402
Investments in funds	66,134
Wealth management products	993
Long position in precious metal contracts	168
Others	3
Total	179,387
Bonds	
Listed inside Mainland China	31,738
Listed outside Mainland China	8,214
Unlisted	17,826
Non-standard assets – Bills	
Inside Mainland China	52,909
Outside Mainland China	–
Investments in equity, funds, wealth management products, precious metal contracts and others	
Listed inside Mainland China	2,047
Listed outside Mainland China	141
Unlisted	66,512

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17. Investments (continued)

(b) Debt investments at FVTOCI

	30 June 2018
Government bonds	190,613
Bonds issued by policy banks	60,675
Bonds issued by commercial banks and other financial institutions	67,273
Other debt securities	35,520
Total	354,081
Listed inside Mainland China	270,617
Listed outside Mainland China	45,403
Unlisted	38,061

No loss allowance is recognised in the consolidated statement of financial position for debt investments at FVTOCI as the carrying amount is at fair value.

Movements of allowances for impairment losses

	2018
At 31 December 2017	–
Adjustments under IFRS 9	1,445
At 1 January 2018	1,445
Charge for the period	597
Exchange difference	30
At 30 June 2018	2,072

(c) Equity investments designated at FVTOCI

	30 June 2018
Reposessed equity instruments	180
Others	3,102
Total	3,282
Listed inside Mainland China	27
Listed outside Mainland China	1,297
Unlisted	1,958

During the six months ended 30 June 2018, the Group sold an investment in equity that was classified at FVTOCI. The fair value of the equity investment designated at the date of derecognition was RMB3 million. The cumulative loss on disposal was RMB1 million which was transferred from investment revaluation reserve to retained profits on disposal.

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17. Investments (continued)

(d) Debt investments at amortised cost

	30 June 2018
Government bonds	355,886
Bonds issued by policy banks	210,711
Bonds issued by commercial banks and other financial institutions	28,808
Other debt securities	8,262
Non-standard assets	
– Bills	68,642
– Loans and advances to customers	234,722
– Creditor's beneficiary rights to other commercial banks	3,000
Others	522
Subtotal	910,553
Less: loss allowances	(7,888)
– 12 months ECL	(4,084)
– life time ECL	(3,804)
Total	902,665
Bonds	
Listed inside Mainland China	597,112
Listed outside Mainland China	3,840
Unlisted	2,715
Fair value for the listed bonds	598,587
Non-standard assets	
Inside Mainland China	306,886
Outside Mainland China	–

Movements of allowances for impairment losses

	2018
At 31 December 2017	–
Adjustments under IFRS 9	7,065
At 1 January 2018	7,065
Charge for the period	671
Release for the period	(9)
Write-offs	–
Recoveries previously written off	9
Exchange difference	152
At 30 June 2018	7,888

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17. Investments (continued)

(e) Available-for-sale financial assets

	31 December 2017
Government bonds	153,426
Bonds issued by policy banks	51,715
Bonds issued by commercial banks and other financial institutions	78,940
Other debt securities	49,703
<u>Subtotal</u>	<u>333,784</u>
Equity investments	3,301
Investments in funds	46,547
<u>Subtotal</u>	<u>383,632</u>
Less: impairment allowances	(531)
<u>Total</u>	<u>383,101</u>
Bonds	
Listed inside Mainland China	231,466
Listed outside Mainland China	44,195
Unlisted	58,123
Investments in equity and funds	
Listed inside Mainland China	1,905
Listed outside Mainland China	1,057
Unlisted	46,886

Movements of allowances for impairment losses

	2017
At 1 January	645
Charge for the period	24
Release for the period	(75)
Write-offs	(35)
Exchange difference	(28)
<u>At 31 December</u>	<u>531</u>

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17. Investments *(continued)*

(f) Held-to-maturity investments

	31 December 2017
Government bonds	330,120
Bonds issued by policy banks	202,610
Bonds issued by commercial banks and other financial institutions	25,072
Other debt securities	509
Subtotal	558,311
Less: impairment allowances	(93)
Total	558,218
Classification	
Listed inside Mainland China	554,936
Listed outside Mainland China	2,661
Unlisted	714
Fair value of listed debt securities	542,523

Movements of allowances for impairment losses are as follows:

	2017
At 1 January	90
Charge for the period	8
Exchange difference	(5)
At 31 December	93

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17. Investments (continued)

(g) Debt securities classified as receivables

	31 December 2017
Investment in bonds	
Government bonds	908
Bonds issued by commercial banks and other financial institutions	9,428
Other debt securities	9,817
Non-standard assets	
Bills	290,215
Loans and advances to customers	261,213
Wealth management products	1,962
Creditor's beneficiary rights to other commercial banks	3,000
Subtotal	576,543
Less: impairment allowances	(4,302)
Total	572,241
Classification	
Inside Mainland China	576,505
Outside Mainland China	38

Movements of allowances for impairment losses are as follows:

	2017
At 1 January	6,176
Charge for the period	1,341
Reverse for the period	(2,227)
Write-off for the period	(988)
At 31 December	4,302

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18. Interests in joint ventures

	30 June 2018	31 December 2017
Share of net assets	5,606	5,059
Share of profits for the period	619	995
Share of other comprehensive (expense)/income for the period	(86)	44

Details of the Group's interests in major joint ventures are as follows:

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Percentage of ownership of the Bank	Percentage of ownership of the Subsidiaries	Principal activity
CIGNA & CMB Life Insurance Company Limited (note (i))	Limited company	Shenzhen	RMB2,800,000	50%	50%	–	Life insurance business
Merchants Union Consumer Finance Company Limited. (note (ii))	Limited company	Shenzhen	RMB2,859,320	50%	15%	35%	Consumer finance

Notes:

- (i) The Group holds 50% equity interests of CIGNA & CMB Life Insurance Company Limited ("CIGNA & CMB Life"), and Life Insurance Company of North America ("INA") holds 50% equity interests of CIGNA & CMB Life. The Bank and INA share the joint venture's profits, risks and losses based on the above proportion of their shareholdings. The Bank's investment in CIGNA & CMB Life shall be accounted as an investment in a joint venture.
- (ii) The Bank's subsidiary, WLB, and China United Network Communications Limited ("CUNC"), which is a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"). The China Banking Regulatory Commission (the "CBRC") approved the operation of MUCFC on 3 March 2015. WLB and CUNC hold 50% equity interests in MUCFC respectively and share the risks, profits and losses based on the above proportion of their shareholding. In December 2017, the Group made an additional capital contribution of RMB600 million in MUCFC, and other shareholders of MUCFC injected capital proportionally. The capital of MUCFC increased to RMB2,859 million, and the Bank's shareholding percentage is 15%, WLB's shareholding percentage is 35%, and the Group's shareholding percentage remains unchanged.

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19. Interests in associates

	30 June 2018	31 December 2017
Share of net assets	1,452	18
Goodwill	–	2
Total	1,452	20
Share of profits for the period	223	3

Associates are unlisted corporate entities and are not individually material to the Group.

20. Property and equipment

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2018	24,847	2,482	10,165	6,829	26,420	6,416	77,159
Additions	23	194	594	123	3,091	108	4,133
Reclassification and transfers	27	–	–	–	–	–	27
Disposals/write-offs	(14)	(2)	(94)	(8)	(1,723)	(215)	(2,056)
Exchange difference	57	–	(1)	2	159	1	218
At 30 June 2018	24,940	2,674	10,664	6,946	27,947	6,310	79,481
Accumulated depreciation:							
At 1 January 2018	8,134	–	7,673	4,305	1,947	5,288	27,347
Depreciation	594	–	614	288	664	272	2,432
Reclassification and transfers	8	–	–	–	–	–	8
Disposals/write-offs	(10)	–	(92)	(6)	(214)	(212)	(534)
Exchange difference	34	–	6	1	32	1	74
At 30 June 2018	8,760	–	8,201	4,588	2,429	5,349	29,327
Net book value:							
At 30 June 2018	16,180	2,674	2,463	2,358	25,518	961	50,154
At 1 January 2018	16,713	2,482	2,492	2,524	24,473	1,128	49,812

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20. Property and equipment (continued)

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2017	22,654	3,797	9,167	6,269	19,054	6,410	67,351
Additions	113	1,516	1,465	402	8,399	410	12,305
Reclassification and transfers	2,402	(2,831)	(4)	197	–	13	(223)
Disposals/write-offs	(91)	–	(403)	(7)	–	(411)	(912)
Exchange difference	(231)	–	(60)	(32)	(1,033)	(6)	(1,362)
At 31 December 2017	24,847	2,482	10,165	6,829	26,420	6,416	77,159
Accumulated depreciation:							
At 1 January 2017	7,104	–	6,810	3,684	909	4,987	23,494
Depreciation	1,158	–	1,280	656	1,118	703	4,915
Reclassification and transfers	27	–	–	(13)	–	–	14
Disposals/write-offs	(49)	–	(392)	(6)	–	(400)	(847)
Exchange difference	(106)	–	(25)	(16)	(80)	(2)	(229)
At 31 December 2017	8,134	–	7,673	4,305	1,947	5,288	27,347
Net book value:							
At 31 December 2017	16,713	2,482	2,492	2,524	24,473	1,128	49,812
At 1 January 2017	15,550	3,797	2,357	2,585	18,145	1,423	43,857

- (a) As at 30 June 2018, the Group considered that there is no impairment loss on property and equipment (31 December 2017: nil).
- (b) As at 30 June 2018, the Group has no significant unused property and equipment (31 December 2017: nil).

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21. Investment properties

	2018	2017
Cost:		
At 1 January	2,855	2,884
Transfers	(27)	109
Disposals/write-offs	(13)	–
Exchange difference	23	(138)
At 30 June/31 December	2,838	2,855
Accumulated depreciation:		
At 1 January	1,243	1,183
Depreciation	71	147
Transfers	(8)	(27)
Disposals/write-offs	(13)	–
Exchange difference	11	(60)
At 30 June/31 December	1,304	1,243
Net book value:		
At 30 June/31 December	1,534	1,612
At 1 January	1,612	1,701

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22. Intangible assets

	Land use rights	Software and others	Core deposits	Total
Cost/valuation:				
At 1 January 2018	4,634	4,923	1,095	10,652
Additions	2,975	540	–	3,515
Exchange difference	2	1	15	18
At 30 June 2018	7,611	5,464	1,110	14,185
Amortisation:				
At 1 January 2018	426	2,613	358	3,397
Additions	120	333	19	472
Exchange difference	–	1	5	6
At 30 June 2018	546	2,947	382	3,875
Net book value:				
At 30 June 2018	7,065	2,517	728	10,310
At 1 January 2018	4,208	2,310	737	7,255
Cost/valuation:				
At 1 January 2017	1,593	3,886	1,178	6,657
Additions	2,975	1,070	–	4,045
Transfers	79	(30)	–	49
Exchange difference	(13)	(3)	(83)	(99)
At 31 December 2017	4,634	4,923	1,095	10,652
Amortisation:				
At 1 January 2017	291	2,108	344	2,743
Additions	138	536	40	714
Transfers	(1)	(29)	–	(30)
Exchange difference	(2)	(2)	(26)	(30)
At 31 December 2017	426	2,613	358	3,397
Net book value:				
At 31 December 2017	4,208	2,310	737	7,255
At 1 January 2017	1,302	1,778	834	3,914

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23. Goodwill

	As at 1 January 2018	Addition in the period	Release in the period	As at 30 June	Impairment losses	Net value at 30 June 2018
WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
CMBICHC (note (iii))	1	–	–	1	–	1
Total	10,533	–	–	10,533	(579)	9,954

Notes:

- (i) On 30 September 2008, the Bank acquired a 53.12% equity interests in WLB. On the acquisition date, the fair value of WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million being the excess of acquisition cost over the fair value of the identifiable net assets was recognised as goodwill.
- (ii) On 28 November 2013, the Bank acquired a 55.00% equity interests in CMFM. On the acquisition date, the fair value of CMFM's identifiable net assets was RMB752 million of which the Bank accounted for RMB414 million. A sum of RMB355 million being the excess of acquisition cost over the fair value of the identifiable net assets was recognised as goodwill.
- (iii) On 1 April 2015, CMBICHC acquired a 100% equity interests in China Merchants Bank Network Technology (Shenzhen) Corporation Limited ("CMB Network"). On the acquisition date, the fair value of CMB Network's identifiable net assets was RMB2.60 million. A sum of RMB1 million being the excess of acquisition cost over the fair value of the identifiable net assets was recognised as goodwill. CMB Network's principal activities include development and sale of computer software and hardware, sale of communication equipment and office automation equipment, advisory service of computer technology and information.

Impairment assessment for Cash Generating Unit (CGU) containing goodwill

Goodwill is allocated to the Group's CGU, WLB which was acquired on 30 September 2008, CMFM which was acquired on 28 November 2013 and CMB Network which was acquired on 1 April 2015 by CMBICHC.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In accessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of WLB and CMFM.

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24. Deferred tax assets, deferred tax liabilities

	30 June 2018	31 December 2017
Deferred tax assets	55,144	50,120
Deferred tax liabilities	(1,038)	(1,070)
Net amount	54,106	49,050

(a) Analysed by nature of deferred tax assets and liabilities

The components of deferred tax assets/liabilities are as follows:

	30 June 2018		31 December 2017	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Loss/impairment allowances for loans and advances to customers and other assets	190,769	47,641	166,590	41,616
Financial assets at FVTOCI	150	(28)	5,381	1,344
Salary and welfare payable	16,269	4,074	15,535	3,884
Others	14,426	3,457	13,841	3,276
Total	221,614	55,144	201,347	50,120
Deferred tax liabilities				
Loss/impairment allowances on loans and advances to customers and other assets	-	-	189	31
Financial assets at FVTOCI	(266)	(30)	(247)	(60)
Others	(4,445)	(1,008)	(6,809)	(1,041)
Total	(4,711)	(1,038)	(6,867)	(1,070)

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24. Deferred tax assets, deferred tax liabilities (continued)

(b) Movements of deferred tax

	Loss/impairment allowances on loans and advances to customers and other assets	Financial assets at FVTOCI	Salary and welfare payable	Others	Total
At 31 December 2017	41,647	1,284	3,884	2,235	49,050
Adjustments under IFRS 9	2,247	(417)	–	386	2,216
At 1 January 2018	43,894	867	3,884	2,621	51,266
Recognised in profit or loss	3,752	18	189	(119)	3,840
Recognised in other comprehensive Income	–	(943)	–	(41)	(984)
Exchange difference	(5)	–	1	(12)	(16)
At 30 June 2018	47,641	(58)	4,074	2,449	54,106
At 1 January 2017	28,134	(485)	2,625	(161)	30,113
Recognised in profit or loss	13,518	–	1,260	2,307	17,085
Recognised in other comprehensive Income	–	1,773	–	22	1,795
Exchange difference	(5)	(4)	(1)	67	57
At 31 December 2017	41,647	1,284	3,884	2,235	49,050

Note: No deferred tax liability has been recognised in respect of the undistributed earnings of oversea subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

25. Provision

	30 June 2018	31 December 2017
Expected credit loss provision	4,677	N/A
Other estimated liabilities	450	450
Total	5,127	450

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26. Deposits from banks and other financial institutions

	30 June 2018	31 December 2017
In Mainland China		
– Banks	93,569	72,324
– Other financial institutions	376,897	359,598
Subtotal	470,466	431,922
Outside Mainland China		
– Banks	11,090	7,185
– Other financial institutions	123	11
Subtotal	11,213	7,196
Total	481,679	439,118

27. Placements from banks and other financial institutions

	30 June 2018	31 December 2017
In Mainland China		
– Banks	83,362	122,305
– Other financial institutions	53,237	88,862
Subtotal	136,599	211,167
Outside Mainland China		
– Banks	64,290	61,565
– Other financial institutions	–	2
Subtotal	64,290	61,567
Total	200,889	272,734

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28. Amounts sold under repurchase agreements

(a) Analysed by nature of counterparties

	30 June 2018	31 December 2017
In Mainland China		
– Banks	115,233	114,955
– Other financial institutions	4,099	5,468
Subtotal	119,332	120,423
Outside Mainland China		
– Banks	8,649	5,162
– Other financial institutions	124	35
Subtotal	8,773	5,197
Total	128,105	125,620

(b) Analysed by assets type as collateral

	30 June 2018	31 December 2017
Debt securities		
– PRC Government bonds	32,154	31,900
– Bonds issued by policy banks	13,277	48,273
– Bonds issued by commercial banks and other financial institutions	8,514	4,470
– Other debt securities	1,012	928
Subtotal	54,957	85,571
Discounted bills	73,148	40,049
Total	128,105	125,620

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29. Deposits from customers

	30 June 2018	31 December 2017
Corporate customers		
– Demand deposits	1,592,426	1,581,802
– Time deposits	1,189,895	1,144,021
Subtotal	2,782,321	2,725,823
Retail customers		
– Demand deposits	1,025,259	972,291
– Time deposits	450,223	366,231
Subtotal	1,475,482	1,338,522
Total	4,257,803	4,064,345

30. Financial liabilities at fair value through profit or loss

	Notes	30 June 2018	31 December 2017
Financial liabilities held for trading	(a)	15,297	11,389
Financial liabilities designated at FVTPL	(b)	16,108	15,230
Total		31,405	26,619

(a) Financial liabilities held for trading

	30 June 2018	31 December 2017
– Precious metal relevant financial liabilities	15,289	11,325
– Short sale securities	8	64
Total	15,297	11,389

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30. Financial liabilities at fair value through profit or loss *(continued)*

(b) Financial liabilities designated at FVTPL

	30 June 2018	31 December 2017
In Mainland China		
– Precious metal contracts with other banks	8,947	7,688
– Others	127	118
Outside Mainland China		
– Certificates of deposit issued	2,726	3,185
– Debt securities issued	4,308	4,239
Total	16,108	15,230

As at 30 June 2018 and 31 December 2017, the difference between the fair value of the Group's financial liabilities designated at FVTPL and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the period presented and cumulatively as at 30 June 2018 and 31 December 2017.

31. Debt securities issued

	Notes	30 June 2018	31 December 2017
Subordinated notes issued	(a)	32,621	33,977
Long-term debt securities issued	(b)	69,505	63,376
Negotiable interbank certificates of deposit		217,079	178,189
Certificates of deposit issued		24,001	20,935
Total		343,206	296,477

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31. Debt securities issued *(continued)*

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the period (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the period (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (note (i))	180 months	4 Sep 2008	5.90 (for the first ten years); 8.90 (from the 11 th year onwards, if the notes are not called by the Bank)	RMB7,000	7,106	-	(106)	-	7,000
Fixed rate bond (note (ii))	180 months	28 Dec 2012	5.20	RMB11,700	11,689	-	-	-	11,689
Fixed rate bond (note (iii))	120 months	18 Apr 2014	6.40	RMB11,300	11,289	-	(3)	-	11,286
Total					30,084	-	(109)	-	29,975

Notes:

(i) CBRC and PBOC approved the Bank's issuance of RMB30,000 million subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No.304 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No.25 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26,000 million fixed rate notes and RMB4,000 million floating rate notes on 4 September 2008 to institutional investors on National Interbank Bond Market.

The Bank exercised its redemption right on 4 September 2013 and redeemed a total of RMB23,000 million subordinated bonds, including two types of bonds valued at RMB19,000 million and RMB4,000 million respectively. On 2 August 2018, the Bank announced that it would exercise its redemption right on 4 September 2018 and redeemed a total of RMB7,000 million subordinated bonds.

(ii) The CBRC and the PBOC approved the Bank's issuance of RMB11,700 million subordinated notes on 29 November 2012 (Yin Jian Fu [2012] No.703 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank") and on 20 December 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.91 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11,700 million fixed rate notes on 28 December 2012 to institutional investors on National Interbank Bond Market.

(iii) The CBRC and PBOC approved the Bank's issuance of RMB11,300 million tier-2 capital bonds on 29 October 2013 (Yin Jian Fu [2013] No.557 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank") and on 15 April 2014 (Yin Shi Chang Xu Zhun Yu Zi [2014] No.22 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11,300 million tier-2 capital bonds on 18 April 2014 on National Interbank Bond Market.

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31. Debt securities issued (continued)

(a) Subordinated notes issued (continued)

As at the end of the reporting period, subordinated notes issued by WLB was as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the period (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the period (RMB in million)	Foreign exchange rate changes (RMB in million)	Ending balance (RMB in million)
Fixed to floating rate notes	120 months	6 Nov 2012	3.50 (for the first 5 years); T*+2.80 (from the 6 th year onwards, if the notes are not called by the Bank)	USD200	1,293	-	9	(1,320)	18	-
Fixed to floating rate notes	120 months	22 Nov 2017	3.75 (for the first 5 years); T*+1.75 (from the 6 th year onwards, if the notes are not called by the Bank)	USD400	2,600	-	1	-	45	2,646
Total					3,893	-	10	(1,320)	63	2,646

* T presents the 5 years US Treasury rate.

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31. Debt securities issued *(continued)*

(b) Long-term debt securities issued

As at the end of the reporting period, long-term debt securities issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the period (RMB in million)	Repayment during the period (RMB in million)	Discount or premium amortisation (RMB in million)	Foreign exchange rate changes (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (note (i))	36 months	22 May 2017	4.20	RMB18,000	17,979	-	-	5	-	17,984
Medium term note (note (ii))	36 months	12 June 2017	3M Libor+0.825	USD800	5,206	-	-	2	92	5,300
Fixed rate bond (note (i))	36 months	14 Sep 2017	4.30	RMB12,000	11,985	-	-	2	-	11,987
Total					35,170	-	-	9	92	35,271

Notes:

- (i) The CBRC and PBOC approved the Bank's issuance of RMB30,000 million financial bonds on 1 April 2017 (Yin Jian Fu [2017] No.114 entitled "The Approval of Financial Bond by China Merchants Bank") and on 5 May 2017 (Yin Shi Chang Xu Zhun Yu Zi [2017] No.74 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB18,000 million fixed rate debt on 22 May 2017 on the National Interbank Bond Market and issued RMB12,000 million fixed rate debt on 14 Sep 2017 on the National Interbank Bond Market respectively.
- (ii) The National Development and Reform Commission approved the Bank's issuance of USD2,000 million foreign debt on 22 April 2017 (Fa Gai Wai Zi [2017] No.560 entitled "Approval of 2017 Pilot Enterprise of Foreign Debt Scale Management (2nd batch) by the National Development and Reform Commission", valid until 31 March 2018). The Bank issued USD800 million floating rate medium-term notes on 12 June 2017 in New York.

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31. Debt securities issued (continued) (b) Long-term debt securities issued (continued)

As at the end of the reporting period, long-term debt securities issued by CMBFLC were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the period (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the period (RMB in million)	Foreign exchange rate changes (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (note (i))	60 months	26 Jun 2013	5.08	RMB1,000	996	-	4	(1,000)	-	-
Fixed rate bond (note (i))	60 months	24 Jul 2013	4.98	RMB1,000	996	-	-	-	-	996
Fixed rate bond (note (ii))	60 months	11 Aug 2014	3.25	USD500	3,268	-	(6)	-	28	3,290
Fixed rate bond (note (iii))	36 months	7 Dec 2015	3.75	RMB200	200	-	-	-	-	200
Fixed rate bond (note (iv))	36 months	11 Mar 2016	3.27	RMB3,800	3,795	-	2	-	-	3,797
Leased asset backed securities (note (v))	74.5 months	5 May 2016	2.98/3.09/ R-1.35**	RMB4,110	253	-	-	(253)	-	-
Fixed rate bond (note (vi))	36 months	29 Nov 2016	2.63	USD300	1,956	-	2	-	16	1,974
Fixed rate bond (note (vi))	60 months	29 Nov 2016	3.25	USD900	5,862	-	3	-	49	5,914
Leased asset backed securities (note (vii))	31 months	21 Feb 2017	4.3/4.5/4.73	RMB4,930	2,186	-	1	(776)	-	1,411
Fixed rate bond (note (viii))	36 months	15 Mar 2017	4.50	RMB4,000	3,988	-	2	-	-	3,990
Fixed rate bond (note (viii))	36 months	5 Jul 2017	4.80	RMB1,500	1,496	-	1	-	-	1,497
Fixed rate bond (note (viii))	36 months	20 Jul 2017	4.89	RMB2,500	2,494	-	1	-	-	2,495
Fixed rate bond (note (viii))	36 months	3 Aug 2017	4.60	RMB2,000	1,995	-	-	-	-	1,995
Fixed rate bond (note (ix))	36 months	14 Mar 2018	5.24	RMB4,000	-	3,987	-	-	-	3,987
Fixed rate bond (note (ix))	36 months	9 May 2018	4.80	RMB4,000	-	3,988	-	-	-	3,988
Total					29,485	7,975	10	(2,029)	93	35,534

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31. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

** RMB900 million of these securities bears a fixed interest rate of 2.98% per annum. RMB600 million of these securities bears a fixed interest rate of 3.09% per annum and the remaining RMB2,610 million of these securities bears an interest rate based on the benchmark lending rate (R) for one to five years published by PBOC minus a spread of 1.35%. The benchmark interest rate published by PBOC is 4.75% during the period ended 30 June 2018 and the year ended 31 December 2017. The applicable interest rate of remaining debts is (R)-1.35% as at 31 December 2017.

Notes:

- (i) As approved by CBRC under its official reply on the issuance of financial bonds by CMBFLC under ref. Yin Jian Fu [2012] No.758 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2013] No.33, CMBFLC issued the first tranche in 2013 of RMB2,000 million financial bonds on 26 June 2013 and the second tranche in 2013 of RMB2,000 million financial bonds on 24 July 2013. CMBFLC redeemed long-term bonds amounting to RMB1,000 million on 27 June 2016, and amounting to RMB1,000 million on 25 July 2016, and amounting to RMB1,000 million on 27 June 2018. The Bank did not hold financial bonds issued by CMBFLC as of 30 June 2018 (31 December 2017: RMB382 million).
- (ii) On 11 Aug 2014, CMB International Leasing Management Limited ("CMBIL"), CMBFLC's subsidiary issued USD500 million with annual interest rate of 3.25% guaranteed notes due 2019 on the HKEx.
- (iii) As approved by CBRC Shanghai office under its reply on the Issuance of Financial Bonds by CMBFLC under ref. Hu Yin Jian Fu [2015] No.551 and PBOC under its Decision on the Grant of Administrative Permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2015] No.276, CMBFLC issued the first tranche of 2015 of RMB200 million financial bonds on 7 December 2015.
- (iv) As approved by CBRC Shanghai office under its reply on the Issuance of financial bonds by CMBFLC under ref. Hu Yin Jian Fu [2015] No.551 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2015] No.276, CMBFLC issued the first tranche of 2016 of RMB3,800 million financial bonds. This 3- year fixed rate bond pays principal on maturity date. The Bank holds financial bonds issued by CMBFLC amounted to RMB200 million as at 30 June 2018 (31 December 2017: RMB200 million).
- (v) According to decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2016] No.65 and notification on record reply on the issuance of leased asset backed securities by CMBFLC approved by The China Banking Regulatory Commission Innovation Supervision Department, CMBFLC issued the first tranche of 2016 of RMB4,855 million finance leases receivable backed securities on 5 May 2016 in the National Interbank Bond Market. RMB 745 million is held by CMBFLC. CMBFLC redeemed RMB1,364 million and RMB519 million finance leases receivable backed securities on 29 July 2016 and 28 October 2016 respectively. CMBFLC redeemed RMB1,974 million finance leases receivable backed securities in 2017, and redeemed RMB253 million finance leases receivable backed securities during the six months ended 30 June 2018.
- (vi) On 29 Nov 2016, CMBIL subsidiary issued USD300 million notes due 2019 with annual interest rate of 2.63% and USD900 million notes due 2021 with annual interest rate of 3.25% on the HKEx. The Bank held Financial Bonds issued by CMBIL amounted to USD30 million as at 30 June 2018 (31 December 2017: USD27 million).

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31. Debt securities issued *(continued)*

(b) Long-term debt securities issued *(continued)*

Notes: *(continued)*

- (vii) As approved by PBOC under its approval on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2016] No.215 and CBRC Innovation Supervision Department under its Notification on Record Approval on The Issuance of Leased Asset Backed Securities by CMBFLC, CMBFLC issued the first tranche of 2017 of RMB5,636 million leased asset backed securities on 21 February 2017 in the National Interbank Bond Market. RMB706 million is held by CMBFLC. CMBFLC redeemed RMB2,744 million finance leases receivable backed securities in 2017, and redeemed RMB776 million finance leases receivable backed securities during the six months ended 30 June 2018.
- (viii) As approved by CBRC Shanghai office under its approval on Issuance of Financial Bonds by CMBFLC under ref. Hu Yin Jian Fu [2016] No.501 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2017] No.9:
1. CMBFLC issued the first tranche of financial bond on 15 March 2017 amounting to RMB4,000 million. This fixed rate bond pays annual interest, and matures in 3 years.
 2. CMBFLC issued the second tranche of financial bond on 5 July 2017 amounting to RMB1,500 million. This fixed rate bond pays annual interest, and matures in 3 years. The Bank holds financial bonds issued by CMBFLC amounted to RMB300 million as of 30 June 2018 (31 December 2017: RMB300 million).
 3. CMBFLC issued the third tranche of financial bond on 20 July 2017 amounting to RMB2,500 million. This fixed rate bond pays annual interest, and matures in 3 years. The Bank holds financial bonds issued by CMBFLC amounted to RMB200 million as of 30 June 2018 (31 December 2017: RMB200 million).
 4. CMBFLC issued the fourth tranche of financial bond on 3 August 2017 amounting to RMB2,000 million. This fixed rate bond pays annual interest, and matures in 3 years.
- (ix) As approved by CBRC Shanghai office under its approval on Issuance of Financial Bonds by CMBFLC under ref. Hu Yin Jian Fu [2018] No.33 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2018] No.32:
1. CMBFLC issued the first tranche of financial bond on 14 March 2018 amounting to RMB4,000 million. This fixed rate bond pays annual interest, and matures in 3 years. The Bank holds financial bonds issued by CMBFLC amounted to RMB260 million as of 30 June 2018.
 2. CMBFLC issued the second tranche of financial bond on 9 May 2018 amounting to RMB4,000 million. This fixed rate bond pays annual interest, and matures in 3 years. The Bank holds financial bonds issued by CMBFLC amounted to RMB140 million as of 30 June 2018.

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32. Share capital

By type of share:

	30 June 2018	31 December 2017
Listed shares		
– A-Shares	20,629	20,629
– H-Shares	4,591	4,591
Total	25,220	25,220

All H-Shares are ordinary shares and rank pari passu with the A-Shares. There is no restriction condition on these shares.

	Shared Capital	
	No. of shares (in million)	Amount
At 1 January 2018 and at 30 June 2018	25,220	25,220

33. Preference shares

(a) Preference shares

	1 January 2018		Issue during the period		30 June 2018	
	No.(millions of shares)	Amount	No.(millions of shares)	Amount	No.(millions of shares)	Amount
Issuance of Offshore Preference Shares in 2017 (note (i))	50	6,597	–	–	50	6,597
Issuance of Domestic Preference Shares in 2017 (note (ii))	275	27,468	–	–	275	27,468
Total	325	34,065	–	–	325	34,065

	1 January 2017		Issue during the year		31 December 2017	
	No. (millions of shares)	Amount	No. (millions of shares)	Amount	No. (millions of shares)	Amount
Issuance of Offshore Preference Shares in 2017 (note (i))	–	–	50	6,597	50	6,597
Issuance of Domestic Preference Shares in 2017 (note (ii))	–	–	275	27,468	275	27,468
Total	–	–	325	34,065	325	34,065

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33. Preference shares (continued)

(a) Preference shares (continued)

Notes:

- (i) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative offshore preference shares (the "Offshore Preference Shares") in the aggregate par value of USD1,000 million on 25 October 2017. Each Offshore Preference Share has a par value of USD20 and 50 million Offshore Preference Shares were issued in total. The initial dividend rate is 4.40% and is subsequently subject to reset per agreement, but not exceed 16.68%. Dividends on the Offshore Preference Shares shall be paid out by cash, which shall be priced and announced in RMB. Save for such dividend at the agreed dividend pay-out ratio, the holders of the above Preference Shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on Preference Shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the Preference Shares, and such cancellation shall not be deemed a default. In the event that the Bank cancels the distribution of part or all of the dividends on the Preference Shares, the Bank will not distribute any profit to holders of Ordinary Shares during the period from the date when the shareholders' general meeting adopts relevant resolution to the restoration of full dividend payment to the holders of Preference Shares. The dividends on the Preference Shares are non-cumulative, that is, the Bank will not distribute the dividends that be cancelled in prior years to preference shares holders.

The Offshore Preference Shares have no maturity date. However, until five years or longer since the issuance ending date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, all or part of the Offshore Preference Shares may be redeemed at the discretion of the Bank, but the Bank does not have the obligation to redeem Preference Shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that the Preference Shares will be redeemed.

- (ii) Pursuant to the approvals by the relevant authorities in China, the Bank issued non-cumulative domestic preference shares (the "Domestic Preference Shares") in the aggregate par value of RMB27,500 million on 18 December 2017. Each Domestic Preference Share has a par value of RMB100 and 275 million Domestic Preference Shares were issued in total. The initial dividend rate is 4.81% and is subsequently subject to reset per agreement, but shall not exceed 16.68%. Dividends on the Domestic Preference Shares shall be paid out by cash. Save for such dividend at the agreed dividend pay-out ratio, the holders of the above Preference Shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on Preference Shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the Preference Shares, and such cancellation shall not be deemed a default. In the event that the Bank cancels the distribution of part or all of the dividends on the Preference Shares, the Bank will not distribute any profit to holders of Ordinary Shares during the period from the date when the shareholders' general meeting adopts relevant resolution to the restoration of full dividend payment to the holders of Preference Shares. The dividends on the Preference Shares are non-cumulative, that is, the Bank will not distribute the dividends that be cancelled in prior years to preference shares holders.

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33. Preference shares *(continued)*

(a) Preference Shares *(continued)*

Notes: *(continued)*

(ii) *(continued)*

The Domestic Preference Shares have no maturity date. However, until five years or longer since the issuance ending date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, all or part of the Domestic Preference Shares may be redeemed at the discretion of the Bank, but the Bank does not have the obligation to redeem Preference Shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that the Preference Shares will be redeemed.

The Domestic Preference Shares and Offshore Preference Shares have conditions of events triggering mandatory conversion as follows:

- (1) Upon the occurrence of any additional Tier-1 Capital Instrument Trigger Event, that is, the Core Tier-1 Capital Adequacy Ratio drops to 5.125% or below, the Bank shall have the right to convert, without the approval of the holders of Preference Shares, part or all of the Preference Shares then issued and outstanding into Ordinary A Shares based on the total par value of the Preference Shares in order to restore the Core Tier-1 Capital Adequacy Ratio of the Bank to above 5.125%. In case of partial conversion, the Preference Shares shall be converted on a pro rata basis and on identical conditions.
- (2) Upon the occurrence of a Tier-2 Capital Trigger Event, the Bank shall have the right to convert, without the approval of the holders of Preference Shares, all of the Preference Shares then issued and outstanding into Ordinary A Shares based on the total par value of the Preference Shares. A Tier-2 Capital Trigger Event means the earlier of the following events: 1) CBRC having concluded that without a conversion or write-off, the Bank would become non-viable, and 2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

Upon the occurrence of the above mandatory conversion events, the Bank shall report to the CBRC for review and determination and shall fulfill the relevant information disclosure obligations of the Securities Law, the CSRC and Hong Kong's laws and regulations such as making provisional reports or announcements in accordance with relevant regulatory requirements.

(b) Relative information attributed to equity instrument holders

	At 30 June 2018	At 31 December 2017
Equity attributed to shareholders of the Bank	500,715	480,210
– Equity attributed to ordinary shareholders of the Bank	466,650	446,145
– Equity attributed to other equity holders of the Bank	34,065	34,065
Equity attributed to non-controlling interests	3,336	3,182
– Equity attributed to non-controlling holders of ordinary shares of subsidiaries	2,201	2,012
– Equity attributed to non-controlling holders of other equity instrument	1,135	1,170

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34. Investment revaluation reserve

	At 30 June 2018	At 31 December 2017
Revaluation reserve for debt investments at FVTOCI	(12)	N/A
Fair value changes in equity investments designated at FVTOCI	1,651	N/A
Remeasurement of defined benefit liability	91	91
Equity-accounted investees – share of other comprehensive income	(92)	(6)
Revaluation reserve for available-for-sale financial assets	N/A	(3,897)
Total	1,638	(3,812)

35. Profit appropriations

(a) Dividends approved/declared by shareholders

	Six months ended 30 June 2018	Year ended 31 December 2017
Dividends in 2017, approved and declared RMB0.84 per shares	21,185	–
Dividends in 2016, approved and paid RMB0.74 per shares	–	18,663

(b) Proposed profit appropriations

	Six months ended 30 June 2018	Year ended 31 December 2017
Statutory surplus reserve	–	6,451
Regulatory general reserve	–	3,083
Dividends – cash dividend: Nil (2017: RMB0.84 per shares)	–	21,185
Total	–	30,719

2017 profit appropriation was proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 27 June 2018.

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36. Notes to consolidated statement of cash flows

(a) Analysis of the balances of cash and cash equivalents (with original maturity within 3 months):

	30 June 2018	30 June 2017
Cash and balances with central bank	86,770	81,222
Balance with banks and other financial institutions	77,918	50,740
Placements with banks and other financial institutions	100,894	85,081
Amounts held under resale agreements	295,806	214,462
Debt securities investments	34,061	8,641
Total	595,449	440,146

(b) Significant non-cash transactions

There are no significant non-cash transactions during the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).

37. Operating segments

The Group's principal business is the provision of deposit and loan business, treasury business, asset management and other financial services for retail and wholesale customers.

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

Since 2016, in order to adapt to the client and product line coordination mechanism, the Group was converted into wholesale finance business and retail finance business and other business segment for business decisions, report and performance evaluation. The profits and losses of the treasury were allocated to two business lines proportionally. After adjustment for the main business segments of the Group, the segments information was reported as follows:

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For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

37. Operating segments *(continued)*

– Wholesale finance business

The financial service for the corporate clients, government agency clients and financial institutions includes: loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business comprised of lending and buy-back, asset custody business, financial market business, and other services.

– Retail finance business

The provision of financial services to retail customers includes lending and deposit taking activities, bank card business, wealth management services, private banking and other services.

– Other business

Other business covers investment properties, businesses in subsidiaries (except for WLB), associates and joint ventures, and other relevant businesses. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

For the purpose of operating segment analysis, external net interest income/expense represents the net interest income earned or expense incurred on banking services provided to external parties. Internal net interest income/expense represents the assumed profit or loss by the internal funds transfer pricing mechanism which has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on direct costs attributable to each reporting segment and apportion to the relevant factors.

The accounting policies of the operating segments are the same as the Group's accounting policies. Operating segment income represents income generated from external customers. Inter-segment transactions are offset. No customer contributed 10% or more to the Group's revenue for the six months ended 30 June 2018 and 2017. Internal transactions are conducted at fair value.

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37. Operating segments (continued)

(a) Segment results, assets and liabilities

	Wholesale finance business		Retail finance business		Other business		Total	
	Six months ended 30 June							
	2018	2017	2018	2017	2018	2017	2018	2017
External net interest income	12,886	19,679	47,587	44,679	16,539	6,538	77,012	70,896
Internal net interest income/ (expense)	25,680	15,215	(9,108)	(8,805)	(16,572)	(6,410)	-	-
Net interest income	38,566	34,894	38,479	35,874	(33)	128	77,012	70,896
Net fee and commission income	11,622	13,599	23,991	19,613	1,856	1,538	37,469	34,750
Other net income	7,814	5,079	440	663	2,526	1,242	10,780	6,984
Operating income	58,002	53,572	62,910	56,150	4,349	2,908	125,261	112,630
Operating expenses								
- Depreciation	(715)	(748)	(1,101)	(1,201)	(687)	(491)	(2,503)	(2,440)
- Others	(12,567)	(10,377)	(19,396)	(16,459)	(1,263)	(1,166)	(33,226)	(28,002)
Subtotal	(13,282)	(11,125)	(20,497)	(17,660)	(1,950)	(1,657)	(35,729)	(30,442)
Reportable segment profit before impairment losses	44,720	42,447	42,413	38,490	2,399	1,251	89,532	82,188
Impairment losses	(20,755)	(21,558)	(10,323)	(10,808)	(351)	(282)	(31,429)	(32,648)
Share of profit of associates and joint ventures	-	-	-	-	842	402	842	402
Reportable segment profit before tax	23,965	20,889	32,090	27,682	2,890	1,371	58,945	49,942
Capital expenditure (note)	1,769	564	2,723	906	3,155	4,598	7,647	6,068

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37. Operating segments (continued)

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

	Wholesale finance business		Retail finance business		Other business		Total	
	Six months ended 30 June							
	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Reportable segment assets	3,173,499	2,824,718	1,884,964	1,814,999	1,407,247	1,592,483	6,465,710	6,232,200
Reportable segment liabilities	3,542,688	3,459,039	1,514,699	1,359,453	848,551	901,122	5,905,938	5,719,614
Interest in associates and joint ventures	-	-	-	-	7,058	5,079	7,058	5,079

Note: Capital expenditure represents total amount incurred for acquiring long-term segment assets.

(b) Reconciliations of reportable segments operating income, profit or loss, assets, liabilities and other material items

	Six months ended 30 June	
	2018	2017
Total operating income for reportable segments	125,261	112,630
Total profit or loss for reportable segments	58,945	49,942

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37. Operating segments *(continued)*

(b) Reconciliations of reportable segments operating income, profit or loss, assets, liabilities and other material items *(continued)*

	30 June 2018	31 December 2017
Assets		
Total assets for reportable segments	6,465,710	6,232,200
Goodwill	9,954	9,954
Intangible assets	728	737
Deferred tax assets	55,144	50,120
Other unallocated assets	5,804	4,627
Consolidated total assets	6,537,340	6,297,638
Liabilities		
Total liabilities for reportable segments	5,905,938	5,719,614
Tax payable	16,567	26,701
Other unallocated liabilities	110,784	67,931
Consolidated total liabilities	6,033,289	5,814,246

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operating in Hong Kong, New York, Singapore, London, Sydney and Luxembourg, subsidiaries operating in Hong Kong and Shanghai and representative offices in Beijing, New York, London and Taipei.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the revenue. Segment assets and non-current assets are allocated based on the geographical location of the underlying assets.

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37. Operating segments *(continued)*

(c) Geographical segments *(continued)*

To support the Group's operations and management's assessments, the geographical segments are defined as follows:

- "Headquarters" refers to the Group headquarter, special purpose vehicles at the branch level which are directly under the headquarter, associates and joint ventures, including the headquarters and credit card centres, etc;
- "Yangtze River Delta region" refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;
- "Bohai Rim region" refers to branches and representative offices in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;
- "Pearl River Delta and West side of Taiwan Strait" refers to branches in Guangdong province and Fujian province;
- "Northeast region" refers to branches in Liaoning province, Heilongjiang province and Jilin province;
- "Central region" refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;
- "Western region" refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;
- "Overseas" refers to overseas branches in Hong Kong, London, New York, Singapore, Luxembourg, Sydney and representative offices in New York, London and Taipei; and
- "Subsidiaries" refers to subsidiaries wholly owned or non-wholly owned by the Group, including WLB, CMBICHC, CMBFLC and CMFM.

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37. Operating segments *(continued)*

(c) Geographical segments *(continued)*

Geographical information	Total assets		Total liabilities		Non-current assets		Operating income		Profit before tax	
	30 June	31 December	30 June	31 December	30 June	31 December	Six months ended	Six months ended	Six months ended	Six months ended
	2018	2017	2018	2017	2018	2017	30 June	30 June	30 June	30 June
Headquarters	2,912,222	2,908,217	2,533,740	2,557,785	34,477	29,628	47,017	39,619	5,955	2,703
Yangtze River Delta region	814,339	761,970	803,287	745,677	2,731	2,849	17,692	16,817	14,138	12,822
Bohai Rim region	535,915	492,441	529,281	484,410	2,014	2,131	13,464	12,880	8,829	8,360
Pearl River Delta and West side of Taiwan Strait	691,576	645,313	682,480	632,515	2,019	2,074	16,348	15,287	12,056	10,733
Northeast region	163,137	151,548	164,148	150,447	1,114	1,162	3,304	3,241	(827)	957
Central region	388,498	358,334	383,870	352,226	2,500	2,573	8,415	7,898	6,135	4,328
Western region	379,912	360,547	374,524	355,602	2,357	2,490	8,693	8,182	7,032	4,452
Overseas	208,515	199,836	203,998	196,693	139	165	2,304	1,718	1,561	1,229
Subsidiaries	443,226	419,432	357,961	338,891	31,659	30,640	8,024	6,988	4,066	4,358
Total	6,537,340	6,297,638	6,033,289	5,814,246	79,010	73,712	125,261	112,630	58,945	49,942

Note: Non-current assets include interest in joint ventures, interest in associates, property and equipment, investment properties, intangible assets, and goodwill.

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38. Contingent liabilities and commitments

(a) Credit commitments

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the end of the reporting period if counterparties default.

	30 June 2018	31 December 2017
Contractual amount		
Irrevocable guarantees	249,151	251,683
Of which: Financial guarantees	158,332	161,407
Non financial guarantees	90,819	90,276
Irrevocable letters of credit	59,698	70,724
Of which: Open sight letters of credit	9,320	9,658
Open usance letters of credit	6,436	6,586
Other payment commitments (note)	43,942	54,480
Bills of acceptances	226,170	245,007
Irrevocable loan commitments	72,289	80,469
– with an original maturity within 1 year (inclusive)	14,787	1,908
– with an original maturity over 1 year	57,502	78,561
Credit card commitments	772,891	690,898
Others	89,025	68,227
Total	1,469,224	1,407,008

Note: Other payment commitments refer to the Group as the acceptor of letters of credit payment commitments.

Irrevocable loan commitments only include credit limits granted to offshore customers by overseas branches, subsidiaries and onshore and offshore syndicated loans.

Apart from the irrevocable loan commitments, the Group has loan commitments of RMB2,030,407 million at 30 June 2018 (31 December 2017: RMB2,042,851 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective lending agreements. The Group will not assume any risks on the unused credit limits for these loan customers. As a result, such balances are not included in the above contingent liabilities and commitments.

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38. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expired, management assesses and makes allowances based on ECL model. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	30 June 2018	31 December 2017
Credit risk weighted amounts of contingent liabilities and commitments	403,287	355,050

The Group calculated the credit risk weighted amount of its contingent liabilities and commitment in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Trial) issued by the CBRC. The amount within the scope approved by the CBRC in April 2014 is calculated using the internal rating-based approach, and the risk-weighted approach is used to calculate those not eligible to the internal rating-based approach.

(b) Capital commitments

	30 June 2018	31 December 2017
For purchase of property and equipment:		
– Contracted for	4,885	6,325
– Authorised but not contracted for	791	740
Total	5,676	7,065

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38. Contingent liabilities and commitments *(continued)*

(c) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	30 June 2018	31 December 2017
Within 1 year (inclusive)	3,343	3,701
1 year to 5 years (inclusive)	8,491	8,925
Over 5 years	1,717	1,845
Total	13,551	14,471

The Group leases certain properties under operating leases. The leases typically run for an initial period of 1 to 5 years, and may include an option to renew the lease when all terms are renegotiated. None of the lease include contingent rental.

(d) Outstanding litigations

At 30 June 2018, the Group was a defendant in certain outstanding litigations with gross claims of RMB776 million (2017: RMB728 million) arising from its banking activities. The Board of Directors considers that no material losses would be incurred by the Group as a result of these outstanding litigations and therefore no provision has been made in the consolidated financial statements.

(e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back its bonds if the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	30 June 2018	31 December 2017
Redemption obligations	23,551	25,182

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

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*(Expressed in millions of Renminbi unless otherwise stated)***39. Transactions on behalf of customers****(a) Entrusted lending business**

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances by the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

Entrusted lending are not assets of the Group and are not recognised in the consolidated statement of financial position. Income received and receivable for providing these services are recognised in the consolidated statement of profit or loss as fee and commission income.

At the end of the reporting period, the entrusted assets and liabilities were as follows:

	30 June 2018	31 December 2017
Entrusted loans	459,923	489,351
Entrusted funds	(459,923)	(489,351)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including bonds, funds, and entrusted loans. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. The funds obtained from wealth management services that have not yet been invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under unconsolidated non-principal-guaranteed wealth management services were as follows:

	30 June 2018	31 December 2017
Funds received from customers under wealth management services	1,709,852	1,730,847

Notes:

In current period, funds received from customers under wealth management services are the funds received from customers under unconsolidated non-principal-guaranteed wealth management services, and has restated the corresponding comparative figures.

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40. Risk management

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the Board of Directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate financial business, the Group formulates credit policy guideline, and enhances credit acceptance and exit policies for corporate and institutional clients, and implements limit control measures to improve the quality of credit exposure.

With respect to the credit risk management of retail financial business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard retail loans collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or credit risk offset. Collateral structures and legal covenants are reviewed regularly to ensure that they can still cover the given risks and be consistent with market practices.

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40. Risk management *(continued)*

(a) Credit risk *(continued)*

In respect of loan classification, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss).

The risks involved in contingent liabilities and commitments are essentially the same as the credit risk involved in loans and advances to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated the quota limit management policy to monitor and analyse the loan portfolio.

Analysis of loans and advances by industry and loan portfolio are stated in Note 16.

The Group's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from financial derivatives, the Group has signed hedging agreements with certain counterparties.

(i) Internal credit risk rating

The Group classifies credit risk based on probability of default. The Group classifies credit risk into 25 grades. The internal credit risk rating is based on the predicted default risk. Internal credit risk ratings are based on qualitative and quantitative factors. For customers of wholesale business include net profit growth rate, sales growth rate, industry, etc. For customers of retail business include maturity, ageing, mortgage rate, etc.

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40. Risk management *(continued)*

(a) Credit risk *(continued)*

(ii) Significant increase in credit risk

As describe in Note 2, the Group recognises lifetime ECL if there are significant increases in credit risk.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument and other items as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers an actual or expected significant deterioration in the financial instrument's internal credit risk rating (Note 40(a)(i)), as well as internal warning signal, the result of 5-tier classification and overdue information. The Group regularly reviews whether the evaluation criteria are applicable to the current situation.

For wholesale business, credit risk is considered as significantly increased if any of the following conditions are met: the customer's internal credit risk rating is a default level; the 5-tier loan classification is special mention, substandard, doubtful or loss; more than 30 days (inclusive) overdue; the internal credit risk rating of the customer has met the standard of downgrading; the early warning signal of the customer has reached a certain level; or the customer has other significant risk signals identified by the Group.

For retail business, credit risk is considered as significantly increased if any of the following conditions are met: the customer's internal credit risk rating is a default level; the 5-tier loan classification is special mention, substandard, doubtful or loss; more than 30 days (inclusive) overdue; or the customer has other significant risk signals identified by the Group.

For credit card business, credit risk is considered as significantly increased if any of the following conditions are met: the customer's internal credit risk rating is a default level; the 5-tier loan classification is special mention, substandard, doubtful or loss; more than 30 days (inclusive) overdue; the customer has early credit risk warning signals; or the customer has other significant risk signals identified by the Group.

A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment.

The Group considers that default has entered stage 3 when a debt instrument is more than 90 days past due.

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40. Risk management *(continued)*

(a) Credit risk *(continued)*

(iii) **Measurement of ECL**

The key inputs used for measuring ECL are:

- probability of default (PD): is an estimate of the likelihood of default over 12 months or lifetime horizon.
- loss given default (LGD): is the proportion of the loss arising on default to the exposure at default;
- exposure at default (EAD)

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

(iv) **Incorporation of forward-looking information**

According to the different risk characteristics of assets, the Group divides assets into different asset groups, identifies macro indicators related to credit risks, and establishes regression models.

The Group uses forward-looking information that is available without undue cost or effort, and predict the macroeconomic assumptions. External information includes macroeconomic data, forecast information issued by government or regulatory agencies, for example, GDP, fixed asset investment, total social consumption, etc. The Group assigns different scenarios to different possibilities.

During the six months ended 30 June 2018, the Group did not make any changes to the predicted technology and important assumptions.

(v) **Groupings based on shared risk characteristics**

The Group divides the primary business into credit card business, retail business, wholesale business. According to the type of business, the Group divides the retail business into housing mortgage loans, consumer loans, etc. According to the scale, the Group divides the wholesale business into small and micro enterprises, medium-sized enterprises and large enterprises.

(vi) **Maximum exposure**

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is the carrying amount of the relevant financial assets (including derivatives) as disclosed in the consolidated statement of financial position and the carrying amount of the off balance sheet items disclosed in Note 38(a). At 30 June 2018, the amount of the Group's maximum credit risk exposure is RMB9,880,408 million (31 December 2017: RMB9,597,033 million).

(vii) **Renegotiated loans and advances to customers**

The carrying amount of loans and advances that were overdue or impaired had the terms been renegotiated was RMB24,632 million as at 30 June 2018 (31 December 2017: RMB18,009 million).

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40. Risk management *(continued)*

(b) Market risk

Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate and which may result in loss to the Group, because of changes in interest rate, foreign exchange rate, commodity price, stock price and other observable market factors. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Group. The Group is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments under the trading book are held for trading purposes or for the purposes of hedging the risks arising from the trading book position, and these financial instruments are traded in active markets. The financial instruments under the banking book are assets and liabilities held by the Group for stable and determinable return, or for the purposes of hedging the risks arising from the banking book position. The financial instruments under the banking book include both the Group's on-balance sheet and off-balance sheet exposure, and have relative stable market value.

(i) Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss to the income and market value of financial instruments and positions held by the Group.

(1) Trading book

The Group has set up its market risk governance framework for trading book, covering interest rate risk, foreign exchange risk and commodity price risk. The Group's market risk governance framework for trading book specifies the roles, responsibilities and reporting line of the Board of Directors, senior management, designated committees and relevant departments to ensure the effectiveness of the trading book market risk management. The market risk management department under the Bank's risk management department is responsible for execution of the management of interest rate risk under the trading book.

The Group has established market risk limits management framework, covering the interest rate risk, foreign exchange rate risk and commodity price risk under the trading book. Within this framework, the highest level indicators (or limits), which are also the trading book market risk preference quantitative indicators (or limits) of the Group, adopt VaR and portfolio stress testing methodologies and directly link to the Bank's net capital. In addition, according to the product type, trading strategy and characteristics of risk of sub-portfolio, the highest level indicators are allocated to lower level indicators, and to each front office departments. These indicators are monitored and reported on a daily basis.

For management purpose, the Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, including all interest rate risk factors related to trading book), interest rate scenario stress test loss index, interest rate sensitivity index, and cumulative loss index (covering all risk factors related to trading book). Management measures include setting the limit and authorization of transaction, daily monitoring and constant reporting. Market value at risk indicator (VaR) includes normal market risk value and stress market value, both of which are calculated using historical simulation method.

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40. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Interest rate risk *(continued)*

(2) Banking book

The Group has established the governance and management framework according to the interest rate risk management policy for the banking book, which specified the roles, responsibilities and reporting lines of the Board of Directors, senior management, designated committees and relevant departments to ensure the effectiveness of interest rate risk management. Interest risk of the banking book of the Group is centrally managed by the Asset and Liability Management Department. The audit department is responsible for auditing.

The Group has mainly adopted scenario simulation analysis, re-pricing exposure analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Stress test is a form of scenario simulation used to assess the changes in NII and EVE indicators when there is an extreme fluctuation in interest rates. The Group conducts stress test on interest rate risk of banking book on a monthly basis. The results of stress test for first half of 2018 showed that the interest rate risk of banking book of the Company was generally stable with various indicators staying within the set limits.

The Group has formulated the principles for risk control at different interest rate risk levels. Based on the risk measurement and monitoring results, the Group will propose the corresponding risk management policy at the regular meetings of the assets and liabilities management committee and through the reporting mechanism, and the Assets and Liabilities Management Department is responsible for its implementation. The major measures for risk management include the adjustment in business volume, duration structure and interest rate structure of on-balance sheet asset and liability business and the utilisation of off-balance sheet derivative tools to offset risk exposure.

The Group measures and monitors interest rate risk of banking book through the asset and liability management system. Major models and parameter assumptions used in the course of measurement shall be verified independently by the Risk Management Department before official use and shall be reviewed and verified regularly upon official use.

(ii) Foreign exchange risk

Foreign exchange risk arises from the holding of foreign currency assets, liabilities and equity items, and the foreign currency and foreign currency derivative positions which may expose the Group to potential losses in the event of unfavourable foreign exchange rate movement. The financial assets and liabilities of the Group are denominated in RMB, and the other currencies are mainly USD and HKD. The Group has established its foreign exchange risk management and governance framework based on segregation of duty principle, which segregates the responsibilities of the establishment, execution and supervision of foreign exchange risk. This framework specified the roles, responsibilities and reporting lines of the Board of Directors, senior management, designated committees and relevant departments of the Bank in the management of foreign exchange risk. The Group takes a prudent strategy in the management of foreign exchange risk, and would not voluntarily take foreign exchange risk, which suits the current development of the Group. The current foreign exchange risk management policies and procedures of the Group fulfil the regulatory requirements and the requirements of the Group in the management of foreign exchange risk.

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40. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Foreign exchange risk *(continued)*

(1) Trading book

The Group has established a market risk structure and system of the trading book, which including exchange rate risk, to quantify the exchange rate risk of the trading book for unified management. The structure, process and method of exchange rate risk of trading book are consistent with the interest rate risk of trading book.

For management and risk measurement purpose, the Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, including interest rate, foreign exchange rate, and commodity risk factors), exchange rate scenario stress test loss index, exchange rate sensitivity index, cumulative loss index, the management method includes conducting business entitlement, setting quota limits, daily monitoring and continuous reporting, etc.

(2) Banking book

The Group's foreign exchange risk under the banking book is overall managed by the Head Office. The Asset and Liability Management Department, as the treasurer of the Bank is in charge of the banking book foreign exchange risk management. The treasurer is responsible for managing the foreign exchange risk under the banking book with a prudent approach and compliance with the regulatory requirements, and managing the foreign exchange risk through approaches such as management of transaction limits and adjustment of plans.

The banking book foreign exchange risk of the Group arises from the mismatch of the non-RMB assets and liabilities. The Group stringently monitors its foreign exchange risk exposures to manage its foreign exchange risk within acceptable limits.

The Group has adopted foreign exchange exposure analysis, scenario simulation analysis and stress testing for the measurement and analysis of foreign exchange risk. The Group regularly measures and analyses the foreign exchange risk exposure fluctuations, monitors and reports foreign exchange risk on a monthly basis under the limit framework, and adjusts the foreign exchange exposures based on the trend of foreign exchange rate movements to avoid the banking book foreign exchange risk.

The Group has continuously strengthened monitoring foreign exchange risk under the banking book and authorization of limits management, to ensure the risk exposure is in a reasonable range.

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*(Expressed in millions of Renminbi unless otherwise stated)***40. Risk management** *(continued)***(c) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to obtain sufficient funds at a reasonable cost in a timely manner to meet the maturity obligations, perform other payment obligations and meet the capital requirements of normal business operations.

In line with its liquidity risk management policies, the Group sets out and implements the principle of supervisory duty segregation. It also puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, the board of supervisors, senior management, designated committees and relevant departments to ensure the effectiveness of the liquidity risk management. The Board of Directors shall accept the ultimate responsibility for liquidity risk management, ensure the Company can effectively identify, measure, monitor and control liquidity risk and are responsible for determining liquidity risk level which the Group can withstand. The Risk and Capital Management Committee under the Board of Directors shall discharge responsibilities in liquidity risk management on behalf of the Board of Directors. The Board of Supervisors shall be responsible for the supervision and evaluation of the performance of the Board of Directors and senior management in the liquidity risk management and report to the general meeting of shareholders. The senior management (being the Executive Office of President of the Head Office) is responsible for the concrete management work relating to liquidity risk and developing a timely understanding of changes in liquidity risks, and shall report the same to the Board of Directors. Assets and Liabilities Committee (ALCO) is, under the authority of the senior management, exercise the corresponding liquidity risk management functions. The Assets and Liabilities Management Department of the Head Office is a day-to-day working body of ALCO, and are responsible for various concrete management work including formulating policies and procedures relating to liquidity risk management and conducting qualitative and quantitative analysis of liquidity risk. The Audit Department of the Head Office performs duties in respect of audit work of liquidity risk management, and conduct comprehensive audit on the Group's liquidity risk management.

The Group is prudent in managing the risk, which better suits its current development stage. Basically, the Group's existing liquidity risk management policies and systems meet regulatory requirements and its own management needs.

The Group's liquidity risk management is coordinated by Head Office with branches acting in concert. The Asset and Liability Management Department acts as the treasurer of the Group is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis under regulatory requirement, and conducting centralised liquidity management through quota management, budget control, initiative debt management as well as internal fund transfer pricing.

The Group measures, monitors and identifies liquidity risk by short-term reserves as well as duration structures and contingencies. It monitors the limit indicators closely at fixed intervals. Specifically, the Group adopts information outsourced from Wind, Reuters and other systems as its external liquidity indicators, and uses self-developed liquidity risk management system to measure its internal liquidity indicators and cash flow statements.

It closely monitors various limit indicators at regular intervals, performs regular stress testing to judge whether it can address liquidity needs under extreme circumstances. In addition to the annual stress tests required by the regulatory authorities, the Company conducts stress tests on the liquidity risk associated with domestic and foreign currencies on a monthly basis. In addition, the Group draws up liquidity contingency plans and conducts liquidity contingency drills to prepare for liquidity crises.

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40. Risk management (continued)

(c) Liquidity risk (continued)

Analysis of the Group's assets and liabilities by residual maturity is as follows:

	30 June 2018								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Overdue	Indefinite	Total
Cash and balances with central bank (note (i))	86,770	-	-	-	-	-	-	467,541	554,311
Amounts due from banks and other financial institutions	65,431	396,675	37,355	101,443	1,107	-	-	1,379	603,390
Loans and advances to customers	8,241	399,482	301,956	1,127,874	929,481	928,818	7,061	-	3,702,913
Investments									
– Debt investments at amortised cost	-	11,560	25,462	190,132	442,631	228,736	4,144	-	902,665
– Debt investments at FVTOCI	-	7,632	26,343	45,046	186,792	87,813	455	-	354,081
– Investments at FVTPL (including derivatives) (note (ii))	2,983	63,727	19,718	41,507	20,532	66,371	-	776	215,614
– Equity investments designated at FVTOCI	-	-	-	-	-	-	-	3,282	3,282
Other assets	20,180	8,365	8,651	11,464	4,573	139	3,045	144,667	201,084
Total assets	183,605	887,441	419,485	1,517,466	1,585,116	1,311,877	14,705	617,645	6,537,340
Amounts due to central bank, banks and other financial Institutions	320,564	273,832	186,560	356,203	23,293	7,537	-	-	1,167,989
Deposits from customers (note (iii))	2,712,498	272,450	395,546	628,970	245,161	3,178	-	-	4,257,803
Financial liabilities at FVTPL (including derivatives)	11,939	5,104	11,934	20,797	8,433	532	-	127	58,866
Debt securities issued	870	34,750	53,022	157,215	71,727	25,622	-	-	343,206
Other liabilities	100,199	66,423	8,649	17,251	4,741	2,529	-	5,633	205,425
Total liabilities	3,146,070	652,559	655,711	1,180,436	353,355	39,398	-	5,760	6,033,289
(Short)/long position	(2,962,465)	234,882	(236,226)	337,030	1,231,761	1,272,479	14,705	611,885	504,051

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40. Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by residual maturity is as follows:

	31 December 2017								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Overdue	Indefinite	Total
Cash and balances with central bank (note (i))	84,424	-	-	-	-	-	-	531,995	616,419
Amounts due from banks and other financial institutions	43,809	299,502	33,898	102,778	1,900	-	-	2,209	484,096
Loans and advances to customers	6,822	358,319	268,551	1,006,228	880,201	887,849	6,642	-	3,414,612
Investments									
– Financial assets at FVTPL (including derivatives) (note (ii))	-	5,298	14,697	42,895	18,354	1,592	-	876	83,712
– Available-for-sale financial assets	-	8,337	18,304	68,573	166,935	116,255	420	4,277	383,101
– Held-to-maturity investments	-	3,418	6,444	31,217	306,655	210,484	-	-	558,218
– Debt securities classified as receivables	-	216,900	33,083	161,336	119,267	40,287	1,268	100	572,241
Other assets	15,299	18,040	3,048	2,793	1,292	505	7,096	137,166	185,239
Total assets	150,354	909,814	378,025	1,415,820	1,494,604	1,256,972	15,426	676,623	6,297,638
Amounts due to central bank, banks and other financial institutions	296,528	403,330	182,894	340,645	23,509	5,404	-	-	1,252,310
Deposits from customers (note (iii))	2,554,598	364,232	350,167	570,414	221,560	3,374	-	-	4,064,345
Financial liabilities at FVTPL (including derivatives)	6,815	6,119	7,905	21,743	5,126	649	-	119	48,476
Debt securities issued	-	48,497	91,414	59,187	64,695	32,684	-	-	296,477
Other liabilities	77,230	38,461	8,274	12,795	8,725	1,199	-	5,954	152,638
Total liabilities	2,935,171	860,639	640,654	1,004,784	323,615	43,310	-	6,073	5,814,246
(Short)/long position	(2,784,817)	49,175	(262,629)	411,036	1,170,989	1,213,662	15,426	670,550	483,392

Notes:

- (i) For balances with central banks, the amount with an indefinite maturity represents statutory deposit reserve and fiscal balances maintained with the PBOC.
- (ii) The residual maturities of financial assets at FVTPL included in investments do not represent the Group's intention to hold them to maturity.
- (iii) The deposits from customers that are repayable on demand includes time deposits matured and awaiting for customers' instructions.

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40. Risk management *(continued)*

(d) Operational risk

Operational risk arises from the direct and indirect loss due to technique, procedure, infrastructure and staff deficiency, as well as other risks which have effect on operation, which includes legal risk. But the strategic risk and reputation risk are not included.

During the reporting period, through the strengthening of operational risk appraisal and assessment mechanisms, stepping up the identification, evaluation and monitoring of operational risk in key areas, the Group carried out a comprehensive special management of low-risk business. Starting with process, institution, employee and system, the Group focused on the existing problems of critical control segment, and measured these problems by management requirement's solidification and refinement. Meanwhile, further improvement on operational risk management framework and methods, developing operational risk assessment mechanism and strengthening operational risk management economic capital allocation mechanism can enhance the ability and effectiveness of operational risk's management in the Group. Now all major indexes can meet the requirements of the Group's risk preference.

In face of challenges from internal and external operations and management, the Group will, based on its risk preference, continue to upgrade its risk management skills, strengthen operational risk monitoring and controls, as well as endeavour to prevent and reduce operational risk losses.

(e) Capital management

The objectives of the Group's capital management are to:

- Keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion and strategic planning implementation for comprehensive and coordinated and sustainable growth;
- Comply with capital regulatory requirements, perform procedures to assess internal capital adequacy, openly disclose information related to capital management, fully cover all risks and ensure safe operation of the entire group;
- Put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate client pricing and decision-making, and increase capital deployment efficiency; and

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40. Risk management *(continued)*

(e) Capital management *(continued)*

- Reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns to shareholders.

The Group manages its capital structure and adjust it based on the economic condition and the risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy, issue or repurchase shares, other tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio under an approach regulated by CBRC. The Group and the Bank file required information to CBRC half-yearly and quarterly.

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers the Bank's all branches. As at 30 June 2018, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: WLB, CMBICHC, CMBFLC and CMFM.

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) and other relevant regulations. On 18 April 2014, the CBRC approved the Bank to adopt the advanced capital management approach. Within the scope of approval of the CBRC, the Bank could calculate corporation and financial institutions risk exposure using the primary internal rating-based approach, retail risk exposure using the internal rating-based approach, market risk using the internal model approach, and operational risk using the standardised approach. At the same time, the CBRC implemented a transition period for commercial banks approved to use the advanced approach to calculate capital. During the transition period, the commercial banks should use both the advanced approach and other approaches to calculate capital adequacy ratios, and comply with minimum capital requirements. During the period, the Group has complied with the capital requirement set by the regulators.

The Group's capital management focuses on the capital adequacy ratio management. The capital adequacy ratio reflects the Group's capability of sound operations and risk resisting. The Group's capital adequacy ratio management's objective is to carefully determine capital adequacy ratio, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plans and manages its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

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40. Risk management *(continued)*

(f) Use of derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. All of the Group's derivative financial instruments are traded over the counter market.

The Group enters into interest rate, currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivative financial instruments can be divided into derivatives at FVTPL, and cash flow hedge financial instruments.

The Group will choose appropriate hedging strategies and tools in light of the risk profile of interest rates or exchange rates of its assets and liabilities, as well as its analyses and judgement regarding future interest rates or exchange rate movements.

The Group is exposed to foreign exchange risk when assets or liabilities denominated in foreign currencies. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

In cash flow hedge, the Group uses interest rate swaps as hedging instruments to hedge the interest cash flows arising from the RMB loans and interbank assets portfolios.

The following tables provide an analysis of the notional amounts and the corresponding fair value of derivatives of the Group by residual maturity at the end of the reporting period. The notional amounts of the derivatives indicate the outstanding transaction volume at the end of the reporting period, not representing amounts at risk.

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40. Risk management (continued)

(f) Use of derivatives (continued)

	30 June 2018						
	Notional amounts with remaining life of					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	1,204,121	1,848,163	1,075,693	5,553	4,133,530	8,983	(8,389)
Currency derivatives							
Forwards	110,652	32,077	1,421	5,094	149,244	1,217	(1,153)
Foreign exchange swaps	488,660	463,804	11,858	-	964,322	12,036	(13,015)
Options	81,737	94,277	55,580	-	231,594	2,068	(4,421)
Subtotal	681,049	590,158	68,859	5,094	1,345,160	15,321	(18,589)
Other derivatives							
Equity options purchased	2,397	710	54,686	-	57,793	229	-
Equity options written	2,398	710	54,685	-	57,793	-	(229)
Commodity trading	30	-	-	-	30	2	(4)
Credit default swap	-	199	132	-	331	4	-
Bond forward	-	464	927	-	1,391	225	(224)
Subtotal	4,825	2,083	110,430	-	117,338	460	(457)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	100	1,400	1,000	-	2,500	-	(26)
Total						24,764	(27,461)

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40. Risk management (continued)

(f) Use of derivatives (continued)

	31 December 2017						
	Notional amounts with remaining life of				Fair value		
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	309,254	1,254,997	487,858	5,682	2,057,791	2,197	(1,808)
Currency derivatives							
Forwards	47,939	24,254	6,273	3,594	82,060	1,452	(1,595)
Foreign exchange swaps	372,129	460,552	15,532	58	848,271	12,438	(14,003)
Options	149,618	185,538	1,793	–	336,949	2,234	(3,926)
Subtotal	569,686	670,344	23,598	3,652	1,267,280	16,124	(19,524)
Other derivatives							
Equity options purchased	5	301	54,092	–	54,398	322	–
Equity options written	143	294	54,092	–	54,529	–	(323)
Commodity trading	–	–	–	–	–	–	–
Subtotal	148	595	108,184	–	108,927	322	(323)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	3,400	2,700	2,400	–	8,500	–	(79)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	100	2,377	4,839	117	7,433	52	(11)
Currency derivatives							
Foreign exchange swaps	18,730	13,459	5,791	524	38,504	221	(112)
Subtotal	18,830	15,836	10,630	641	45,937	273	(123)
Total						18,916	(21,857)

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40. Risk management *(continued)*

(f) Use of derivatives *(continued)*

Credit risk weighted amounts

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts have taken the effects of bilateral netting arrangements into account.

	30 June 2018	31 December 2017
Credit risk weighted assets of counterparties		
Interest rate derivatives	3,470	1,190
Currency derivatives	7,770	8,357
Other derivatives	4,178	3,467
Credit valuation adjustment risk weighted assets	27,461	18,836
Total	42,879	31,850

Note: The credit risk weighted amounts in respect of derivatives are calculated in accordance with the Administrative Measures on Capital of Commercial Banks (Trial) issued by CBRC, covering default risk weighted assets of counterparties and credit valuation adjustment risk weighted assets. The amount within the scope approved by CBRC in April 2014 was calculated using the internal rating-based approach, and the risk-weighted approach is adopted to calculate those not eligible to the internal rating-based approach.

(g) Fair value information

(i) *Financial instruments at fair value*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has established a control framework to govern the measurement of fair values. This includes a valuation team that has responsibility for overseeing all significant fair value measurements including three levels of fair values, and reports directly to the person in charge of accounting affairs.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuation meets the requirements of IFRSs, including the level in the fair value hierarchy in which such valuation should be classified. Significant valuation issues are reported to the Audit Committee of the Board.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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40. Risk management (continued)

(g) Fair value information (continued)

(i) Financial instruments at fair value (continued)

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at date of financial position on a recurring basis. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest input that is significant to the entire fair value measurement. The levels are defined as follows:

- Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;
- Level 2 inputs: other than quoted prices included in level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities inputs;
- Level 3 inputs: inputs that are unobservable for assets or liabilities.

The Group recognises transfers among levels of the fair value hierarchy as at the end of the reporting period in which they occur. The Group's assets and liabilities measured at fair value are measured on a recurring basis. The Group does not have assets nor liabilities measured at fair value on a non-recurring basis.

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy:

	30 June 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments mandatorily measured at FVTPL				
– Debt securities	9,998	47,399	381	57,778
– Long position in precious metal contracts	168	–	–	168
– Equity investments	135	137	1,130	1,402
– Investments in funds	2,999	62,322	813	66,134
– Wealth management products	–	–	993	993
– Asset management schemes – bills	–	52,909	–	52,909
– Others	–	–	3	3
Subtotal	13,300	162,767	3,320	179,387
Loans and advances to customers at FVTPL	–	–	355	355
Investments designated at FVTPL	5,105	6,358	–	11,463
Derivative financial assets	–	24,764	–	24,764
Debt investments at FVTOCI	70,065	284,016	–	354,081
Loans and advances to customers at FVTOCI	–	228,128	5,022	233,150
Equity investments designated at FVTOCI	1,324	25	1,933	3,282
Total	89,794	706,058	10,630	806,482

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	30 June 2018			Total
	Level 1	Level 2	Level 3	
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	15,289	–	–	15,289
– Short sale securities	8	–	–	8
Subtotal	15,297	–	–	15,297
Financial liabilities designated at FVTPL				
– Precious metal contracts with other banks	8,947	–	–	8,947
– Certificates of deposit issued	–	2,726	–	2,726
– Debt securities issued	4,308	–	–	4,308
– Others	–	127	–	127
Subtotal	13,255	2,853	–	16,108
Derivative financial liabilities	–	27,461	–	27,461
Total	28,552	30,314	–	58,866

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40. Risk management (continued)

(g) Fair value information (continued)

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis (continued)

	31 December 2017			Total
	Level 1	Level 2	Level 3	
Assets				
Financial assets held for trading				
– Debt securities	10,181	44,590	–	54,771
– Long position in precious metal contracts	211	–	–	211
– Equity investments	32	–	–	32
– Investments in funds	–	401	–	401
Subtotal	10,424	44,991	–	55,415
Investments designated at FVTPL				
– Debt securities	4,886	4,495	–	9,381
Derivative financial assets	–	18,916	–	18,916
Available-for-sale financial assets				
– Debt securities	73,391	259,938	–	333,329
– Equity investments	1,058	162	2,005	3,225
– Investments in funds	1,905	44,481	161	46,547
Subtotal	76,354	304,581	2,166	383,101
Total	91,664	372,983	2,166	466,813

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40. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

	31 December 2017			Total
	Level 1	Level 2	Level 3	
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	11,325	–	–	11,325
– Short position in equity securities	–	64	–	64
Subtotal	11,325	64	–	11,389
Financial liabilities designated at fair value through profit or loss				
– Precious metal contracts with other banks	7,688	–	–	7,688
– Certificates of deposit issued	–	3,185	–	3,185
– Debt securities issued	4,239	–	–	4,239
– Others	–	118	–	118
Subtotal	11,927	3,303	–	15,230
Derivative financial liabilities	–	21,857	–	21,857
Total	23,252	25,224	–	48,476

During the period there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

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40. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) **Assets and liabilities which are measured at fair value at date of financial position on a recurring basis** *(continued)*

(1) **Basis of determining the market price for recurring fair value measurements categorised within Level 1**

Bloomberg's quoted prices and etc. are used for financial instruments with quoted prices in an active market.

(2) **Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurement categorised within Level 2**

Fair value of RMB denominated bonds whose value is available on China bond pricing system on the valuation date is measured using the latest valuation results published by China bond pricing system.

Fair value of foreign currency bonds without quoted prices in an active market, is measured by using the comprehensive valuations issued by Bloomberg, etc.

Fair value of foreign exchange forwards contracts in derivative financial assets is measured by discounting the differences between the contract prices and market prices of the foreign exchange forwards contracts. The discount rates used are the applicable RMB denominated swap yield curve as at the end of the reporting period.

Fair value of foreign exchange options is measured using the Black-Scholes model, applying applicable foreign exchange spot rates, foreign exchange yield curves and exchange rate volatilities. The above market data used are quoted price in an active market, provided by Bloomberg, Reuters and other market information providers.

Fair value of interest rate swaps in derivative financial assets is measured by discounting the expected receivable or payable amounts under the assumption that these swaps had been terminated at the end of reporting date. The discount rates used are the related RMB denominated swap yield curve as at the end of reporting period.

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40. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) **Assets and liabilities which are measured at fair value at date of financial position on a recurring basis** *(continued)*

(2) **Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurement categorised within Level 2** *(continued)*

Dealing price of the investment fund derived from the net asset values of the investment funds with reference to observable quoted price of underlying investment portfolio in active market is used as the basis of determining the market price for recurring fair value measurements categorised within Level 2.

The fair value of loans and advances to customers at FVTOCI in Mainland China is measured based on the transaction interest rate of rediscounted bills announced by Shanghai Commercial Paper Exchange; the Group uses 10-day average of the transaction interest rate as the basis for calculating the value of discounted bills. The fair value of loans and advances to customers at FVTOCI outside Mainland China is measured by discounted cash flow approach. The discount rates used are determined by factors such as credit rating of the loan customer provided by S&P, Moody's or Fitch, customer industry, term to maturity of the loan, loan currency and the issuer credit spread.

The fair value of non-standard bills at FVTPL in Mainland China is measured based on the transaction interest rate of rediscounted bills announced by Shanghai Commercial Paper Exchange; the Group uses 10-day average of the transaction interest rate as the basis for calculating the value of discounted bills.

The fair value of certificates of deposit at FVTPL is measured by using the comprehensive valuations issued by Bloomberg.

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40. Risk management (continued)

(g) Fair value information (continued)

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis (continued)

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3

Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at 30 June 2018	Valuation techniques	Unobservable input
Equity investments designated at FVTOCI	916	Market approach	Liquidity discount
Equity investments designated at FVTOCI	1,017	Net asset value approach	Book net assets, liquidity discount
Loans and advances to customers at FVTPL	355	Market approach	The cost of debt issued by comparable companies
Loans and advances to customers at FVTOCI	5,022	Discounted cash flow approach	Risk-adjusted discount rate, actual trading conditions-adjusted discount rate, cash flow
Investments mandatorily measured at FVTPL			
– Debt securities	381	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	5	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Investments in funds	160	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	1,125	Market approach	Liquidity discount
– Investments in funds	653	Market approach	Liquidity discount
– Wealth management products	993	Net asset value approach	Net assets value
– Others	3	Discounted cash flow approach	Cash flow

	Fair value as at 31 December 2017	Valuation techniques	Unobservable input
Unlisted available-for-sale equity investments	779	Market comparison approach	Liquidity discount
Unlisted available-for-sale equity investments	727	Market approach	Transaction of near delivery rate
Unlisted available-for-sale fund investments	499	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Unlisted available-for-sale fund investments	161	Discounted cash flow approach	Risk-adjusted discount rate, cash flow

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40. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) *Assets and liabilities which are measured at fair value at date of financial position on a recurring basis (continued)*

(3) *Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 (continued)*

- (1) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Investments mandatorily measured at FVTPL	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Available-for-sale financial assets	Total
Assets						
At 31 December 2017	-	-	-	-	2,166	2,166
Adjustments under IFRS 9	2,171	-	14,909	2,393	(2,166)	17,307
At 1 January 2018	2,171	-	14,909	2,393	-	19,473
Profit or loss	-	-	-	-	-	-
– In profit or loss	(35)	8	-	-	-	(27)
– In other comprehensive income	-	-	13	(460)	-	(447)
Purchases	1,357	345	8,426	-	-	10,128
Disposals or settlement on maturity	(173)	-	(18,326)	-	-	(18,499)
Exchange difference	-	2	-	-	-	2
At 30 June 2018	3,320	355	5,022	1,933	-	10,630
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	(35)	8	-	-	-	(27)

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40. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)*

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 *(continued)*

(1) Valuation of financial instruments with significant unobservable inputs *(continued)*

Assets	Derivative financial assets	Available- for-sale financial assets	Total
At 1 January 2017	–	1,873	1,873
Profit or loss			
– In profit or loss	–	(4)	(4)
– In other comprehensive income	–	(67)	(67)
Purchases	–	1,618	1,618
Disposals or settlement on maturity	–	(1,186)	(1,186)
Exchange difference	–	(68)	(68)
At 31 December 2017	–	2,166	2,166
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	(4)	(4)

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40. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) **Assets and liabilities which are measured at fair value at date of financial position on a recurring basis *(continued)***

(3) **Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 *(continued)***

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

The fair value of financial instruments are, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 10 per cent of change in fair value to reasonably possible alternative assumptions.

	30 June 2018	
	Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)
Investments mandatorily measured at FVTPL	332	(332)
Loans and advances to customers at FVTPL	36	(36)
Loans and advances to customers at FVTOCI	502	(502)
Equity investments designated at FVTOCI	193	(193)

	31 December 2017	
	Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)
Available-for-sale financial assets		
– Equity investments	201	(201)
– Investments in funds	16	(16)

- (3) Transfers between level 1 and level 2 for financial instruments which are measured at fair value on an on-going basis, the reasons for these transfers and the policy for determining when to transfer between level 1 and level 2

During the period ended 30 June 2018, there were no transfers between level 1 and level 2 for financial instruments which are measured at fair value on an on-going basis.

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40. Risk management *(continued)*

(g) Fair value information *(continued)*

(ii) **Assets and liabilities which are measured at fair value at date of financial position on a recurring basis** *(continued)*

(3) **Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3** *(continued)*

- (4) Changes in valuation technique and the reasons for making the changes

During the period ended 30 June 2018, the Group has not changed the valuation technique of the above financial assets which are measured at fair value on an on-going basis.

(iii) **Financial assets and financial liabilities that are not measured at fair value**

(1) **Financial Assets**

The Group's financial assets that are not measured at fair value mainly include cash, balances with central banks, balances and placements with banks and other financial institutions, amounts held under resale agreements, loans and advances to customers and investments.

Except for loans and advances at amortised cost and debt investments at amortised cost, most of the financial assets will mature within 1 year, and their carrying value approximate their fair value.

Loans and advances at amortised cost are stated at amortised costs less allowances for impairment losses. Loans and advances at amortised cost are mostly priced at floating rates close to the PBOC rates and repriced at market rates at least annually, and impairment allowance is made to reduce the carrying amount of impaired loans to estimate the recoverable amount. Accordingly, the carrying value of loans and advances at amortised cost is close to the fair value.

Debt investments at amortised cost are stated at amortised costs less impairment, and the fair value of listed bonds classified as debt investments at amortised cost are disclosed in Note 17(d).

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40. Risk management *(continued)*

(g) Fair value information *(continued)*

(iii) **Financial assets and financial liabilities that are not measured at fair value** *(continued)*

(1) **Financial Assets** *(continued)*

The carrying value, fair value of debt investments at amortised cost not measured or disclosed at fair value are listed as below:

The fair value measurements for Level 1 are based on quoted price in active market, for example, released by Bloomberg. For Level 2, the latest valuation results released by China bond pricing system are used to measure fair value of bonds denominated in RMB. The Level 2 category also includes foreign currency bonds without active quoted price, which are measured by Bloomberg comprehensive valuation. The Level 3 adopts expected cash flow valuation technique to measure fair value.

	30 June 2018					31 December 2017	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Held-to-maturity investments	N/A	N/A	N/A	N/A	N/A	558,218	542,664
Debt investments at amortised cost	902,665	910,689	3,986	595,890	310,813	N/A	N/A

(2) **Financial Liabilities**

Financial liabilities mainly include deposits from customers, amounts due to banks and other financial institutions, and debts securities issued by the Group. The carrying value of financial liabilities approximate their fair value at the end of the reporting period of the year presented, except the financial liabilities set out below:

	30 June 2018					31 December 2017	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Subordinated notes issued	32,621	32,924	-	32,924	-	33,977	33,945
Long-term debt securities issued	69,505	68,488	-	68,488	-	63,376	63,224
Total	102,126	101,412	-	101,412	-	97,353	97,169

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41. Material related party transactions (a) Material connected person information

The Bank's main shareholders and its parent company are as follows:

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	the relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB14,143 million	7,559,027,375	29.97% (notes (i)&(ix))	-	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service, etc.	The largest shareholder's parent company	Limited company	Li Jianhong
China Merchants Steam Navigation Co., Ltd. (CMSNCL)	Beijing	RMB5,900 million	3,289,070,337	13.04% (note (iii))	-	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services, etc.	The largest shareholder	Joint stock limited company	Li Jianhong
Shenzhen Yan Qing Investment Development Co., Ltd.	Shenzhen	RMB600 million	1,258,542,349	4.99%	-	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Liu Jie
Shenzhen Chu Yuan Investment and Development Co., Ltd.	Shenzhen	RMB600 million	944,013,171	3.74%	-	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Liu Jie
China Merchants Finance Investment Holdings Co., Ltd.	Shenzhen	RMB600 million	1,147,377,415	4.55%	-	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Hong Xiaoyuan
Best Winner Investment Co., Ltd.	British Virgin Islands	US\$0.05 million	386,924,063	1.53%	-	Shareholder	Shareholder	Joint stock limited company	-
China Merchants Union (BVI) Co., Ltd.	British Virgin Islands	US\$0.06 million	477,903,500	1.89%	-	Shareholder	Shareholder	Limited company	-
China Merchants Industry Development (Shenzhen) Co., Ltd.	Shenzhen	US\$10 million	55,196,540	0.22%	-	Invest and set up industries, enterprise management consulting and investment consulting, etc.	Shareholder	Limited company	Wang Xiaoding
Anbang Insurance Group Co., Ltd.	Beijing	RMB61,900 million	2,934,094,716	11.63% (note (iii))	-	Insurance	Shareholder's parent company	Joint stock limited company	(note (iii))
Anbang Property & Casualty Insurance Co., Ltd.	Beijing	RMB37,000 million	2,934,094,716	11.63% (note (iii))	-	Insurance	Shareholder	Joint stock limited company	Ye Jing
China COSCO Shipping Co., Ltd.	Beijing	RMB11,000 million	2,515,993,034	9.97% (note (iv))	-	International shipping business, import and export of goods and technology, etc.	Shareholder's parent company	Limited company	Xu Liiong
China Ocean Shipping Co., Ltd.	Beijing	RMB16,191 million	1,574,729,111	6.24%	-	Transportation business, shipping space booking, time charter, voyage charter, leasing, constructing and trading ships, etc.	Shareholder	Limited company	Xu Liiong
China COSCO Shipping (Guangzhou) Co., Ltd.	Guang zhou	RMB32 million	696,450,214	2.76%	-	Shipping business	Shareholder	Limited company	Shou Jian

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41. Material related party transactions (continued)

(a) Material connected person information (continued)

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	the relationship with the Bank	Legal form	Legal representative
China COSCO Shipping (Shanghai) Co., Ltd.	Shanghai	RMB1,399 million	75,617,340	0.30%	-	Shipping business, leasing business, ship repairing and building etc.	Shareholder	Limited company	Zhao Bengqiao
Guangzhou Haining Maritime Technology Service Co., Ltd.	Guang zhou	RMB2 million	103,552,616	0.41%	-	Business services	Shareholder	Limited company	Li Cui
China COSCO Shipping Financial Holdings Co., Ltd.	Hong Kong	HKD500 million	54,721,930	0.22%	-	Leasing business, financing business, insurance business etc.	Shareholder	Limited company	-
Shenzhen Tri-Dynas Oil & Shipping Co., Ltd.	Shenzhen	RMB299 million	10,121,823	0.04%	-	Ship purchasing and marketing business, shipping agency, leasing business, shipping business etc.	Shareholder	Limited company	Zheng Zhuilong
Hebei Port Group Co., Ltd.	Qin huangdao	RMB8,000 million	303,444,770	1.20% (note vi)	-	Port construction and investment management, port leasing and maintenance business, handling and warehousing business etc.	Shareholder	Limited company	Cao ziyu
China Communications Construction Group LTD	Beijing	RMB5,855 million	571,845,625	2.27% (note vii)	-	General contractor for construction	Shareholder's parent company	Limited company	Liu Qitao
China Communications Construction Co., Ltd	Beijing	RMB16,175 million	450,164,945	1.78% (note vii)	-	General contractor for construction, leasing and repair, technical consulting service, imports and exports, investment and management business	Shareholder	Joint stock limited company	Liu Qitao
Shanghai Automotive Industry Corporation (Group)	Shanghai	RMB21,599 million	432,125,895	1.71% (note viii)	-	Production and sale of vehicles, asset management business, domestic trade business, consulting service	Shareholder's parent company	Limited company	Chen Hong
SAIC Motor Corporation Co., Ltd.	Shanghai	RMB11,683 million	432,125,895	1.71%	-	Production and sale of vehicles, consulting service, imports and exports	Shareholder	Joint stock limited company	Chen Hong
CMB International Capital Holdings Corporation Co., Ltd. (CMBCHC)	Hong Kong	HKD4,129 million	-	-	100%	Financial advisory services	Subsidiary	Limited company	Tian Huiyu
CMB Financial Leasing Co., Ltd. (CMBFLC)	Shanghai	RMB6,000 million	-	-	100%	Finance lease	Subsidiary	Limited company	Lian Bolin
Wing Lung Bank Co., Ltd. (WLB)	Hong Kong	HKD1,161 million	-	-	100%	Banking	Subsidiary	Limited company	Tian Huiyu
China Merchants Fund Management Co., Ltd. (CMFM)	Shenzhen	RMB1,310 million	-	-	55%	Asset Management	Subsidiary	Limited company	Li Hao

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41. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Notes:

- (i) CMG holds 29.97% of the Bank (31 December 2017: 29.97%) through its subsidiaries as at 30 June 2018.
- (ii) As the largest shareholder, CMSNCL which is a subsidiary of CMG, holds 13.04% of the Bank as at 30 June 2018 (31 December 2017: 13.04%).
- (iii) Anbang Property&Casualty Insurance holds 11.63% of the share capital of the Bank through its subsidiaries (31 December 2017: 11.63%). On June 29, 2018, Anbang Property&Casualty Insurance transferred its 1,258,949,171 A shares to its related party Harmony Health Insurance Co., Ltd. (After the Shanghai Stock Exchange confirmed, the transfer procedures will be handled. As at June 30, 2018, the transfer procedures have not been completed.) After the transfer, Anbang Property&Casualty Insurance will hold 6.64% of the Bank's shares, and Harmony Health Insurance Co., Ltd. will hold 4.99% of the Bank's shares.
- (iv) China COSCO Shipping Co., Ltd. holds 9.97% of the Bank (2017: 9.97%) through its subsidiaries.
- (v) Hebei Port Group Co., Ltd. directly holds 1.20% of the Bank (2017: 1.20%).
- (vi) China Communications Construction Group LTD ("China Communications Construction Group") holds 2.27% of the bank through its subsidiaries (2017: 2.27%).
- (vii) China Communications Construction Group LTD holds the Bank through its subsidiaries (include China Communications Construction Co., Ltd.).
- (viii) Shanghai Automotive Industry Corporation (Group) ("Shanghai Automotive Industry Group") holds 1.71% of the bank through its subsidiary (SAIC Motor Corporation Limited) (2017:1.71%).
- (ix) The total percentage of CMG's shareholdings in the Bank and the sum of above-mentioned relevant percentage may differ slightly due to rounding.

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*(Expressed in millions of Renminbi unless otherwise stated)***41. Material related party transactions** *(continued)***(a) Material connected person information** *(continued)*Notes: *(continued)*

The information of registered capital of the related parties as at 30 June 2018 and 31 December 2017 is as below:

Name of related party		30 June 2018		31 December 2017
CMG	RMB	14,142,500,000	RMB	14,142,500,000
CMSNCL	RMB	5,900,000,000	RMB	5,900,000,000
Shenzhen Yan Qing Investment Development Co., Ltd.	RMB	600,000,000	RMB	600,000,000
Shenzhen Chu Yuan Investment and Development Co., Ltd.	RMB	600,000,000	RMB	600,000,000
China Merchants Finance Investment Holdings Co., Ltd.	RMB	600,000,000	RMB	600,000,000
Best Winner Investment Ltd.	USD	50,000	USD	50,000
China Merchants Union (BVI)Ltd.	USD	60,000	USD	60,000
China Merchants Industry Development (Shenzhen) Co., Ltd.	USD	10,000,000	USD	10,000,000
Anbang Insurance Group Co., Ltd	RMB	61,900,000,000	RMB	61,900,000,000
Anbang Property & Casualty Insurance Co., Ltd.	RMB	37,000,000,000	RMB	37,000,000,000
China COSCO Shipping Co., Ltd.	RMB	11,000,000,000	RMB	11,000,000,000
China Ocean Shipping Co., Ltd.	RMB	16,191,351,300	RMB	16,191,351,300
China COSCO Shipping (Guangzhou) Co., Ltd.	RMB	3,191,200,000	RMB	3,191,200,000
China COSCO Shipping (Shanghai) Co., Ltd.	RMB	1,398,941,000	RMB	1,398,941,000
Guangzhou Haining Maritime Technology Service Co., Ltd.	RMB	2,000,000	RMB	2,000,000
China COSCO Shipping Financial Holdings Co., Ltd.	HKD	500,000,000	HKD	500,000,000
Shenzhen Tri-Dynas Oil & Shipping Co., Ltd.	RMB	299,020,000	RMB	299,020,000
Hebei Port Group Co., Ltd.	RMB	8,000,000,000	RMB	8,000,000,000
China Communications Construction Group LTD	RMB	5,855,423,830	RMB	5,855,423,830
China Communications Construction Co., Ltd	RMB	16,174,735,425	RMB	16,174,735,425
Shanghai Automotive Industry Corporation (Group)	RMB	21,599,175,737	RMB	21,599,175,737
SAIC Motor Co., Ltd.	RMB	11,683,461,365	RMB	11,683,461,365
CMBICHC	HKD	4,129,000,000	HKD	4,129,000,000
CMBFLC	RMB	6,000,000,000	RMB	6,000,000,000
WLB	HKD	1,160,950,575	HKD	1,160,950,575
CMFM	RMB	1,310,000,000	RMB	1,310,000,000

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41. Material related party transactions *(continued)*

(b) Transaction terms and conditions

In each period, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The opinion of the directors is that the Group's material related-party transactions were all entered on normal commercial terms. The banking transactions are priced at the market rates at each time of transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	30 June 2018	31 December 2017
Short-term loans	4.35%	4.35%
Medium to long-term loans	4.75% to 4.90%	4.75% to 4.90%
Demand deposits	0.35%	0.35%
Time deposits	1.10% to 2.75%	1.10% to 2.75%

There were no life time ECL assessed allowances for impairment losses made against loans and advances granted to related parties during the reporting period.

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 29.97% (31 December 2017: 29.97%) shares of the Bank as at 30 June 2018 (among them 13.04% shares is held by CMSNCL (31 December 2017: 13.04%)).

The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	30 June 2018	31 December 2017
<i>On-balance sheet:</i>		
– Loans and advances to customers	14,984	11,122
– Investments	3,710	5,109
– Deposits from customers	55,092	53,686
<i>Off-balance sheet:</i>		
– Irrevocable guarantees	1,598	1,489
– Irrevocable letters of credit	456	91
– Bills of acceptances	146	36

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41. Material related party transactions (continued)

(c) Shareholders and their related companies (continued)

	Six months ended 30 June	
	2018	2017
Interest income	360	439
Interest expense	390	390
Net fee and commission income	260	247
Operating expense	19	11
Other net loss	–	34

(d) Companies controlled by or be significantly influenced by or appointed common directors, senior management and/or supervisors of the Bank other than those under Note 41 (c) above

	30 June 2018	31 December 2017
<i>On-balance sheet:</i>		
– Loans and advances to customers	3,716	6,955
– Investments	1,790	1,063
– Deposits from customers	17,686	25,327
<i>Off-balance sheet:</i>		
– Irrevocable guarantees	276	673
– Acceptance bills	9	–
– Bills of acceptances	3	–

	Six months ended 30 June	
	2018	2017
Interest income	86	187
Interest expense	120	261
Net fee and commission income	264	56
Operating expense	602	495
Other net income	23	33

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41. Material related party transactions *(continued)*

(e) Associates and joint ventures other than those under Note 41(c) above

	30 June 2018	31 December 2017
<i>On-balance sheet:</i>		
– Loans and advances to customers	1,792	2,665
– Placements	8,100	2,700
– Deposits from customers	865	902
<i>Off-balance sheet:</i>		
– Irrevocable guarantees	8,701	8,700
Six months ended 30 June		
	2018	2017
Interest income	383	25
Interest expense	9	9
Net Fee and commission income	744	644
Other net income	–	5

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41. Material related party transactions *(continued)*

(f) Other main shareholders holding more than 5% shares of the Bank or applying significant influence

	30 June 2018	31 December 2017
<i>On-balance sheet:</i>		
– Loans and advances to customers	10,574	7,508
– Investments	633	513
– Deposits from customers	18,631	23,040
<i>Off-balance sheet:</i>		
– Irrevocable guarantees	6,755	6,124
– Acceptance bills	114	–
– Bills of acceptances	39	–
	Six months ended 30 June	
	2018	2017
Interest income	131	28
Interest expense	737	249
Net fee and commission income	826	686
Other net income	49	(13)

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42. Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the subsidiaries. As CMFM's net assets and net profit are not material to the Group, there is no subsidiary of the Group which has material non-controlling interests during the reporting period.

The perpetual capital instrument was issued by the bank's subsidiary, WLB, on 27th April 2017, with the aggregate nominal amount of USD170 million as follows:

	Principal	Distributions	Total
At 1 January 2018	1,170	–	1,170
Distributions during the period	–	32	32
Paid during the period	–	(32)	(32)
Exchange difference	(35)	–	(35)
At 30 June 2018	1,135	–	1,135

- (i) There is no maturity of the instruments and the payments of distribution can be cancelled at the discretion of the issuers. Cancelled distribution is not cumulative. When the issuers elect to declare dividends, the distribution to the holders of perpetual capital instruments shall be made at the distribution rate as defined in the subscription agreements.

43. Transfers of financial assets

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

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*(Expressed in millions of Renminbi unless otherwise stated)***43. Transfers of financial assets** *(continued)***Securitisation of credit assets**

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. Except for those finance leases receivable mentioned below, during the six months ended 30 June 2018, as the Group has transferred the loans amounted to RMB1,523 million (for the six months ended 30 June 2017: 1,699 million), as well as substantially all the risks and rewards of the loans have been transferred, the full amount of such securitised loans were derecognised.

As the underlying assets, certain finance leases receivable did not meet the criteria of derecognition, the Group did not derecognize such finance leases receivable, the consideration received was recognised as financial liabilities. As at 30 June 2018, the carrying amount of such transferred but not derecognised finance leases receivable amounted to RMB2,137 million (31 December 2017: RMB3,668 million) and correspondently the carrying amount of recognised financial liabilities is RMB1,411 million (31 December 2017: RMB2,439 million).

Transactions of credit assets

During the six months ended 30 June 2018, the Group has transferred credit assets to third party institutions directly amounted to RMB78,000 million (for the six months ended 30 June 2017: RMB1,917 million); RMB77,607 million of these transferred credit assets is transferred to structured entities (for the six months ended 30 June 2017: 1,814 million). The Group concluded that these transferred assets qualified for full de-recognition.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities, discounted bills held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

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44. Interests in unconsolidated structured entities

(a) Interests in the structured entities sponsored by third party institutions

The Group holds interests in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include wealth management products, asset management schemes, trust beneficiary rights, assets backed securities and investments in funds, and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 30 June 2018 and 31 December 2017 in the structured entities sponsored by third party institutions and an analysis of the line items in the statement of financial position as at 30 June 2018 and 31 December 2017 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2018					
	Carrying amount					Maximum exposure
	Amounts held under resale agreements	Investments mandatorily measured at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	
Asset management schemes	-	52,909	208,631	-	261,540	261,540
Trust beneficiary rights	-	-	97,733	-	97,733	97,733
Asset backed securities	-	1,798	2,565	3,316	7,679	7,679
Investment in funds	-	18,013	-	-	18,013	18,013
Total	-	72,720	308,929	3,316	384,965	384,965

	31 December 2017						
	Carrying amount					Maximum exposure	
	Amounts held under resale agreements	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables		Total
Asset management schemes	1,048	-	-	-	446,603	447,651	447,651
Trust beneficiary rights	-	-	-	-	93,993	93,993	93,993
Asset backed securities	-	-	3,437	563	4,427	8,427	8,427
Investment in funds	-	401	21,051	-	-	21,452	21,452
Total	1,048	401	24,488	563	545,023	571,523	571,523

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44. Interests in unconsolidated structured entities *(continued)*

(a) Interests in the structured entities sponsored by third party institutions *(continued)*

The maximum exposures held by the Group in investments in funds, the wealth management products, trust beneficiary rights, asset management schemes, and the assets backed securities is the book value of these assets in the statement of financial positions.

(b) Interests in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products, funds and custodian plan. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of investment products to investors. Interest held by the Group includes fees charged on management services provided.

As at 30 June 2018, the amount of the unconsolidated non-principal-guaranteed wealth management services, which are sponsored by the Group, is RMB1,990,245 million (31 December 2017: RMB2,177,856 million).

As at 30 June 2018, the amount of the unconsolidated mutual funds, which are sponsored by the Group, is RMB379,240 million (31 December 2017: RMB392,292 million).

As at 30 June 2018, the amount of the unconsolidated asset management schemes which are sponsored by the Group, is RMB318,654 million (31 December 2017: RMB264,591 million).

As at 30 June 2018, the balance of amounts held under resale agreements and placement with banks and other financial institutions between the Group and its non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB119,732 million (31 December 2017: RMB201,641 million) and RMB49,999 million (31 December 2017: RMB9,013 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During the six months ended 30 June 2018, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB6,322 million (for the six months ended 30 June of 2017: RMB6,455 million).

During the six months ended 30 June 2018, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB729 million (for the six months ended 30 June 2017: RMB543 million).

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(Expressed in millions of Renminbi unless otherwise stated)

44. Interests in unconsolidated structured entities *(continued)*

(b) Interests in the unconsolidated structured entities sponsored by the Group *(continued)*

During the six months ended 30 June 2018, the amount of management fee income received from the unconsolidated asset management schemes by the Group is RMB405 million (for the six months ended 30 June of 2017: RMB516 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2018 with a maturity date before 30 June 2018 was RMB1,214,736 million (for the six months ended 30 June 2017: RMB1,221,479 million).

45. Subsequent event

On 2 August 2018, the Bank announced that it would exercise its redemption right on 4 September 2018 and redeemed a total of RMB 7,000 million subordinated bonds which was issued on 4 September 2008.

Approved by China Banking and Insurance Regulatory Commission and PBOC, the Bank issued RMB 30,000 million of financial bonds on the National Inter-bank Bond Market on August 17, 2018, all of which are 3-year fixed-rate bonds. The interest rate is 3.95%.

Up to the date of approval of the interim financial report, the Group has no other material events that require disclosure in or adjustments of the interim financial report after 30 June 2018.

46. Comparative figures

In 2018, the Group divided industry sector and category according to the newly revised "Industrial Classification for National Economic Activities" (GB/T 4754-2017) standards issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Standardization Administration of the People's Republic of China and has restated the corresponding comparative figures.

During the six months ended 30 June 2018, the Group reclassified the profit or loss related to precious metal to "Profit (loss) from fair value change" under other net income, and has restated the corresponding comparative figures.

During the six months ended 30 June 2018, funds received from customers under wealth management services in note 39(b) are the funds received from customers under unconsolidated non-principal-guaranteed wealth management services, and has restated the corresponding comparative figures.

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(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the CBRC's *Administrative Measures on the Capital of Commercial Banks (Trial)* issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

In accordance with the advanced capital management approach approved by CBRC in April 2014, the Group calculated core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	30 June 2018	31 December 2017
Core tier-1 capital adequacy ratio	11.61%	12.06%
Tier-1 capital adequacy ratio	12.51%	13.02%
Capital adequacy ratio	15.08%	15.48%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	25,220	25,220
Qualifying portion of capital reserve	67,378	63,272
Surplus reserves	46,126	46,131
Regulatory general reserve	70,836	70,907
Retained profits	253,491	239,560
Qualifying portion of non-controlling interests	231	208
Others (note (i))	1,528	(817)
Total core tier-1 capital	464,810	444,481
Regulatory deductions from core tier-1 capital	22,201	18,792
Net core tier-1 capital	442,609	425,689
Other tier-1 capital (note (ii))	34,096	34,093
Net tier-1 capital	476,705	459,782
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	27,980	30,000
Surplus provision for loans impairment	69,862	54,586
Qualifying portion of non-controlling interests	62	2,166
Total tier-2 capital	97,904	86,752
Regulatory deductions from core tier-2 capital	-	-
Net tier-2 capital	97,904	86,752
Net capital	574,609	546,534
Total risk-weighted assets	3,811,302	3,530,745

Notes:

- (i) Others represent other comprehensive income of foreign currency financial statements under CBRC's *Administrative Measures on the Capital of Commercial Banks (Trial)*.
- (ii) The Group's additional tier-1 capital includes qualifying portion of non-controlling interests, preferred shares and etc.

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(A) Capital adequacy ratio *(continued)*

On 30 June 2018, by the method of calculating credit risk using the risk-weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 9.93%, tier-1 capital adequacy ratio is 10.70%, capital adequacy ratio is 12.44%, net capital is RMB554,129 million and total risk-weighted assets is RMB4,455,598 million.

(B) Leverage ratio

In accordance with the CBRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio and relevant components as at 30 June 2018 were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries.

Summary comparison of accounting assets and leverage ratio exposure measure:

	30 June 2018	31 December 2017
Total consolidated assets as per published financial statements	6,537,340	6,297,638
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(7,648)	(6,304)
Adjustments for fiduciary assets	-	-
Adjustments for derivative financial instruments	25,189	30,435
Adjustment for securities financing transactions	35,790	28,849
Adjustment for off-balance sheet items	1,054,005	977,930
Other adjustments	(22,201)	(18,792)
Balance of adjusted on-balance sheet and off-balance sheet assets	7,622,475	7,309,756

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(B) Leverage ratio *(continued)*

Leverage ratio, net tier-1 capital, on-balance sheet and off-balance sheet exposures and other information:

	30 June 2018	31 December 2017
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	6,208,991	6,019,868
Less: Asset amounts deducted in determining Basel III Tier 1 capital	(22,201)	(18,792)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	6,186,790	6,001,076
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	23,939	18,088
Add-on amounts for potential future exposure associated with all derivatives transactions	24,788	29,748
Gross-up for derivatives collateral provided where deducted from the balance sheet assets	-	-
Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	-	-
Less: Exempted central counterparty leg of client-cleared trade exposures	-	-
Effective notional amount of written credit derivatives	1,226	1,515
Less: Adjusted effective notional deductions for written credit derivatives	-	-
Total derivative exposures	49,953	49,351
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	295,937	252,550
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
Counterparty credit risk exposure for SFT assets	35,790	28,849
Agent transaction exposures	-	-
Total securities financing transaction exposures	331,727	281,399
Off-balance sheet exposure at gross notional amount	1,899,945	1,754,836
Less: Adjustments for conversion to credit equivalent amounts	(845,940)	(776,906)
Balance of adjusted off-balance sheet assets	1,054,005	977,930
Net tier 1 capital	476,705	459,782
Balance of adjusted on-balance sheet and off-balance sheet assets	7,622,475	7,309,756
Leverage ratio	6.25%	6.29%

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(C) Liquidity coverage ratio

In accordance with CBRC's Administrative Measures on Liquidity Coverage Ratio of Commercial Banks effective on 31 December 2015, the Group's liquidity coverage ratio and relevant components as at 30 June 2018 were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries. For the quarter ended 30 June 2018, the Group's liquidity coverage ratio was as follows:

	Quarter ended 30 June 2018		Quarter ended 31 December 2017	
	Unweighted amount (Average value)	Weighted amount (Average value)	Unweighted amount (Average value)	Weighted amount (Average value)
High quality liquid assets				
Total high quality liquid assets (HQLA)		624,364		596,666
Cash outflows				
Retail deposits and small business funding, of which:				
Stable deposits	359,179	17,959	322,474	16,124
Less stable deposits	1,174,553	117,457	1,154,427	115,443
Unsecured wholesale funding, of which:				
Business relations deposits(excluding correspondent banks operations)	1,667,148	415,476	1,636,910	406,679
Non-business relations deposits (including all the counterparties)	1,174,900	618,372	1,192,084	647,894
Liabilities and obligations arising from unsecured funding	31,994	31,994	63,258	63,258
Secured funding		40,783		42,401
Additional requirements, of which:				
Cash outflows arising from derivative contracts and other transactions arising from related collateral requirements	327,699	327,699	52,145	52,134
Cash outflows arising from secured debt instruments funding	–	–	–	–
Committed credit facilities and committed liquidity facilities	830,239	46,701	743,527	42,699
Other contractual lending obligations	19,139	19,139	19,230	19,230
Other contingent funding obligations	4,060,098	62,718	2,668,869	18,562
Total cash outflows		1,698,298		1,424,424

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(C) Liquidity coverage ratio *(continued)*

	Quarter ended 30 June 2018		Quarter ended 31 December 2017	
	Unweighted amount (Average value)	Weighted amount (Average value)	Unweighted amount (Average value)	Weighted amount (Average value)
Cash inflows				
Secured lending transactions (including reverse repurchase agreements and securities borrowed)	269,839	269,839	175,291	175,291
Cash inflows from fully honoured payments	930,805	666,148	868,522	611,834
Other cash inflows	323,979	322,903	53,418	51,686
Total cash inflows		1,258,890		838,811
		Adjusted value		Adjusted value
TOTAL HQLA ⁽ⁱⁱ⁾		624,364		596,666
TOTAL NET CASH OUTFLOWS		439,408		585,613
LCR (%) ⁽ⁱ⁾		142.09%		101.90%

Notes:

- (i) LCR is calculated based on the arithmetic mean of the item as at the end of each month for the latest quarter during the reporting period.
- (ii) The "high quality liquid assets" consists of cash, central bank reserves available under pressure conditions, and bonds that meet the definition of primary and secondary assets stipulated in the CBRC's Administrative Measure on Liquidity Risk Management of Commercial Banks (Trial).

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(D) International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims in foreign currencies on third parties within the Mainland China as international claims.

International claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills, certificates of deposit and securities investment.

International claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk is transferred only when the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	30 June 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	82,335	5,248	59,301	146,884
Asia Pacific excluding Mainland China	26,013	21,432	147,947	195,392
– of which attributed to Hong Kong	9,957	20,889	131,355	162,201
Europe	14,222	511	17,863	32,596
North and South America	28,618	37,214	45,565	111,397
Total	151,188	64,405	270,676	486,269

	31 December 2017			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	96,112	9,758	73,302	179,172
Asia Pacific excluding Mainland China	31,322	35,942	149,651	216,915
– of which attributed to Hong Kong	20,810	35,912	139,530	196,252
Europe	15,610	2,057	5,804	23,471
North and South America	11,553	1,863	34,515	47,931
Total	154,597	49,620	263,272	467,489

Unaudited Supplementary Financial Information
(Expressed in millions of Renminbi unless otherwise stated)**(E) Overdue loans and advances to customers****(i) By geographical segments**

	30 June 2018	31 December 2017
Headquarters	5,687	4,495
Yangtze River Delta region	7,640	7,813
Bohai Rim region	8,035	5,990
Pearl River Delta and West side of Taiwan Strait	6,474	7,758
Northeast region	3,625	4,061
Central region	4,776	5,119
Western region	7,197	9,334
Outside Mainland China	198	42
Subsidiaries	891	1,067
Total	44,523	45,679

(ii) By overdue period

	30 June 2018	31 December 2017
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	6,699	6,570
– between 6 and 12 months (inclusive)	8,929	10,254
– over 12 months	28,895	28,855
Total	44,523	45,679
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	0.17%	0.18%
– between 6 and 12 months (inclusive)	0.23%	0.29%
– over 12 months	0.75%	0.81%
Total	1.15%	1.28%

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(E) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	30 June 2018	31 December 2017
Secured portion of overdue loans and advances	10,768	11,494
Unsecured portion of overdue loans and advances	33,755	34,185
Value of collateral held against overdue loans and advances	17,928	13,239

The amount of the Group's overdue loans and advances to financial institutions as at 30 June 2018 was RMB1 million (31 December 2017: RMB1 million).

Note:

The above analysis represents loans and advances overdue for more than 90 days as required and defined by the Hong Kong Monetary Authority (the "HKMA").

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular installments, if part of the installments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collateral of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

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(Expressed in millions of Renminbi unless otherwise stated)

(F) Rescheduled loans and advances to customers

	30 June 2018		31 December 2017	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	24,632	0.64%	18,009	0.51%
Less:				
– rescheduled loans and advances overdue more than 90 days	16,865	0.44%	11,293	0.32%
Rescheduled loans and advances overdue less than 90 days	7,767	0.20%	6,716	0.19%

The amount of the Group's rescheduled loans and advances to financial institutions as at 30 June 2018 was RMB1 million (31 December 2017: RMB1 million).

(G) Non-bank Mainland China exposures

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 30 June 2018 and 31 December 2017, most of the Bank's exposures arose from businesses with Mainland non-bank institutions or individuals. Analysis of various types of exposure by counterparty have been disclosed in the notes to the interim financial report.

(H) Currency concentrations other than RMB

	30 June 2018			Total
	USD	HKD	Others	
<i>Non-structural position</i>				
Spot assets	488,665	211,959	87,189	787,813
Spot liabilities	(546,385)	(178,964)	(81,798)	(807,147)
Forward purchased	593,671	36,539	122,587	752,797
Forward written	(514,901)	(39,899)	(126,098)	(680,898)
Net option position	(583)	(2,183)	(265)	(3,031)
Net long position	20,467	27,452	1,615	49,534
Net structural position	(4,379)	(31,252)	7	(35,624)

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(Expressed in millions of Renminbi unless otherwise stated)

(H) Currency concentrations other than RMB (continued)

	31 December 2017			Total
	USD	HKD	Others	
	(in millions of RMB)			
<i>Non-structural position</i>				
Spot assets	471,789	215,597	84,678	772,064
Spot liabilities	(545,168)	(185,566)	(69,890)	(800,624)
Forward purchased	490,431	36,210	83,433	610,074
Forward written	(398,527)	(36,478)	(91,187)	(526,192)
Net option position	(3,145)	(184)	80	(3,249)
Net long position	15,380	29,579	7,114	52,073
Net structural position	(3,629)	(29,145)	13	(32,761)

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

- Investment properties, property and equipment, net of depreciation charges;
- Capital and statutory reserves of overseas branches; and
- Investments in subsidiaries.