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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)**

## **THIRD QUARTERLY REPORT OF 2018**

### **1 IMPORTANT NOTICE**

- 1.1 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.
- 1.2 The 32nd meeting of the Tenth Session of the Board of Directors of the Company has approved the third quarterly report of 2018 of the Company through voting by correspondence. 16 out of 16 eligible directors attended the meeting.
- 1.3 All financial statements set out in this report are prepared in accordance with the International Financial Reporting Standards and are unaudited. The unaudited quarterly report prepared by the Company in accordance with the PRC Accounting Standards has been published on the website of Shanghai Stock Exchange. Unless otherwise stated, all monetary sums stated in this report are expressed in RMB.
- 1.4 Hereinafter “China Merchants Bank” and “the Company” mentioned in this report are all referred to China Merchants Bank Co., Ltd.; and “the Group” is referred to China Merchants Bank Co., Ltd. and its subsidiaries.
- 1.5 Li Jianhong, Chairman of the Board of Directors of the Company, Tian Huiyu, President, 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.

## 2 GENERAL INFORMATION

### 2.1 Major accounting data and financial indicators of the Group

*(Unless otherwise stated, amounts expressed in millions of RMB)*

	<b>At the end of the reporting period 30 September 2018</b>	At the end of last year 31 December 2017	Increase/decrease at the end of the reporting period as compared to the end of last year (%)
Total Assets	<b>6,508,681</b>	6,297,638	3.35
Equity attributable to shareholders of the Bank	<b>525,636</b>	480,210	9.46
Net assets per share attributable to the ordinary shareholders of the Bank <i>(in RMB Yuan)</i>	<b>19.49</b>	17.69	10.18
	<b>For the period from January to September 2018</b>	For the period from January to September 2017	Increase/decrease as compared to the corresponding period of last year (%)
Cash used in operating activities before income tax payment	<b>(141,453)</b>	(167,794)	15.70
Cash used in operating activities before income tax payment per share <i>(in RMB Yuan)</i>	<b>(5.61)</b>	(6.65)	15.64

	<b>The reporting period July to September 2018</b>	For the period from January to September 2018	For the period from January to September 2017	Increase/decrease during the period of January to September 2018 as compared to the corresponding period of last year (%)
Net operating income	<b>62,178</b>	188,281	166,361	13.18
Net profit attributable to shareholders of the Bank	<b>22,624</b>	67,380	58,805	14.58
Basic earnings per share attributable to ordinary shareholders of the Bank ( <i>in RMB Yuan</i> )	<b>0.88</b>	2.66	2.33	14.16
Diluted earnings per share attributable to ordinary shareholders of the Bank ( <i>in RMB Yuan</i> )	<b>0.88</b>	2.66	2.33	14.16
Annualised weighted average return on net assets attributable to ordinary shareholders of the Bank (%)	<b>18.61</b>	19.07	18.66	Increase of 0.41 percentage point

*Note:* Pursuant to the requirements of the “International Financial Reporting Standard 9 – Financial Instruments” (referred to as “the New Financial Instruments Standard”), starting from 2018, the Group measured its financial instruments in accordance with the New Financial Instruments Standard and did not restate the comparable figures as at the end of the previous year and for the corresponding period of the previous year, therefore, the statistical calibre of relevant financial indicators at the end of the current period was different from that at the end of the previous year, and the statistical calibre for the current period was also different from that for the corresponding period of the previous year.

## 2.2 Explanation on the differences between the financial statements prepared in accordance with the International Financial Reporting Standards and the PRC Accounting Standards

In the financial statements prepared by the Group in accordance with the International Financial Reporting Standards and the PRC Accounting Standards, there has been no difference in the net profit attributable to shareholders of the Bank for the reporting period ended 30 September 2018 and the equity attributable to shareholders of the Bank at the end of the reporting period.

## 2.3 Analysis of capital adequacy ratios as at the end of the reporting period

The Group continued to optimise its business structure and enhance capital management, and has satisfied various capital requirements of Chinese banking regulatory institution during the reporting period.

As at 30 September 2018, the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Group under the advanced approach were 15.46%, 12.84% and 11.97%, respectively.

<b>The Group</b>	<b>As at 30 September 2018</b>	<b>As at 31 December 2017</b>	<b>Increase/decrease at the end of the reporting period as compared to the end of last year (%)</b>
	<i>(in millions of RMB, except for percentages)</i>		
<b>The capital adequacy ratios under the advanced approach<sup>(1)</sup></b>			
Net core Tier 1 capital	<b>467,324</b>	425,689	9.78
Net Tier 1 capital	<b>501,416</b>	459,782	9.06
Net capital	<b>603,784</b>	546,534	10.48
Core Tier 1 capital adequacy ratio	<b>11.97%</b>	12.06%	Decrease of 0.09 percentage point
Tier 1 capital adequacy ratio	<b>12.84%</b>	13.02%	Decrease of 0.18 percentage point
Capital adequacy ratio	<b>15.46%</b>	15.48%	Decrease of 0.02 percentage point
<b>Information on leverage ratio<sup>(2)</sup></b>			
Total on and off balance sheet assets after adjustment	<b>7,648,065</b>	7,309,756	4.63
Leverage ratio	<b>6.56%</b>	6.29%	Increase of 0.27 percentage point

Notes:

1. The “advanced approach” refers to the advanced measurement approach set out in the “Capital Rules for Commercial Banks (Provisional)” issued by CBRC on 7 June 2012 (same as below). In accordance with the requirements of the advanced approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include China Merchants Bank and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Company shall include all the domestic and overseas branches and sub-branches of China Merchants Bank. As at 30 September 2018, the Group’s subsidiaries for calculating its capital adequacy ratio included CMB Wing Lung Bank Limited, CMB International Capital Holdings Corporation Limited, CMB Financial Leasing Co., Ltd. and China Merchants Fund Management Co., Ltd.. During the transition period when the advanced capital measurement approaches were implemented, a commercial bank shall use the capital floor adjustment coefficients to adjust the amount of its risk-weighted assets multiplying the sum of its minimum capital requirement and reserve capital requirement, total amount of capital deductions and the provision for excessive loan loss which can be included into capital. The capital floor adjustment coefficients shall be 95%, 90% and 80% respectively in the first year, the second year, and the third and subsequent years during the transition period. 2018 is the fourth year since implementation of the transition period.
2. Since 2015, the Group has calculated the leverage ratio in accordance with the “Measures for Management of the Leverage Ratio of Commercial Banks (Revised)” promulgated by CBRC on 12 February 2015. The leverage ratio of the Group were 6.25%, 6.52% and 6.29% as at the end of the first half of 2018, the end of the first quarter of 2018 and the end of 2017, respectively.

As at 30 September 2018, the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Company under the advanced approach were 15.11%, 12.47% and 11.58%, respectively.

	As at 30 September 2018	As at 31 December 2017	Increase/decrease at the end of the reporting period as compared to the end of last year (%)
<b>The Company</b>			
	<i>(in millions of RMB, except for percentages)</i>		
<b>The capital adequacy ratios under the advanced approach</b>			
Net core Tier 1 capital	<b>407,206</b>	371,416	9.64
Net Tier 1 capital	<b>438,659</b>	402,869	8.88
Net capital	<b>531,418</b>	483,546	9.90
Core Tier 1 capital adequacy ratio	<b>11.58%</b>	11.70%	Decrease of 0.12 percentage point
Tier 1 capital adequacy ratio	<b>12.47%</b>	12.69%	Decrease of 0.22 percentage point
Capital adequacy ratio	<b>15.11%</b>	15.24%	Decrease of 0.13 percentage point

As at 30 September 2018, the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Group under the weighted approach were 12.80%, 11.08% and 10.33%, respectively.

<b>The Group</b>	<b>As at 30 September 2018</b>	As at 31 December 2017	Increase/decrease at the end of the reporting period as compared to the end of last year
<b>The capital adequacy ratios under the weighted approach<sup>(Note)</sup></b>			
Core Tier 1 capital adequacy ratio	<b>10.33%</b>	10.01%	Increase of 0.32 percentage point
Tier 1 capital adequacy ratio	<b>11.08%</b>	10.81%	Increase of 0.27 percentage point
Capital adequacy ratio	<b>12.80%</b>	12.66%	Increase of 0.14 percentage point

*Note:* The “weighted approach” refers to the weighted approach for measuring credit risk, the standardised approach for measuring market risk and the basic indicator approach for measuring operational risk in accordance with the relevant provisions of the “Capital Rules for Commercial Banks (Provisional)” issued by the CBRC on 7 June 2012, same as below.

As at 30 September 2018, the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Company under the weighted approach were 12.23%, 10.57% and 9.81%, respectively.

<b>The Company</b>	<b>As at 30 September 2018</b>	As at 31 December 2017	Increase/decrease at the end of the reporting period as compared to the end of last year
<b>The capital adequacy ratios under the weighted approach</b>			
Core Tier 1 capital adequacy ratio	<b>9.81%</b>	9.50%	Increase of 0.31 percentage point
Tier 1 capital adequacy ratio	<b>10.57%</b>	10.30%	Increase of 0.27 percentage point
Capital adequacy ratio	<b>12.23%</b>	12.16%	Increase of 0.07 percentage point

## 2.4 Information on shareholders

### 2.4.1 Information on the shareholders of ordinary shares

Total number of shareholders as at the end of the reporting period 234,123

Shareholdings of Top 10 shareholders and the top 10 shareholders whose shares are not subject to trading moratorium as at the end of the reporting period

Serial No.	Name of Shareholder	Nature of shareholder	Percentage of shareholdings (%)	Number of shares held (share)	Type of Shares	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Limited <sup>(1)</sup>	/	18.03	4,546,259,153	H Shares	-	Unknown
2	China Merchants Steam Navigation Co., Ltd.	State-owned legal person	13.04	3,289,470,337	A Shares not subject to trading moratorium	-	-
3	China Ocean Shipping Company Limited	State-owned legal person	6.24	1,574,729,111	A Shares not subject to trading moratorium	-	-
4	Anbang Property & Casualty Insurance Co., Ltd. – traditional products	Domestic legal person	5.73	1,445,647,045	A Shares not subject to trading moratorium	-	-
5	Hexie Health Insurance Co., Ltd. –tradition-ordinary insurance products	Domestic legal person	4.99	1,258,949,171	A Shares not subject to trading moratorium	-	-
6	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	4.99	1,258,542,349	A Shares not subject to trading moratorium	-	-
7	China Merchants Finance Investment Holdings Co. Ltd.	State-owned legal person	4.55	1,147,377,415	A Shares not subject to trading moratorium	-	-
8	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	3.74	944,013,171	A Shares not subject to trading moratorium	-	-
9	China Securities Finance Corporation Limited	Domestic legal person	2.99	754,074,366	A Shares not subject to trading moratorium	-	-
10	COSCO Shipping (Guangzhou) Co., Ltd.	State-owned legal person	2.76	696,450,214	A Shares not subject to trading moratorium	-	-

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. 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 all holding subsidiaries of China Merchants Group Ltd.. As at 30 September 2018, China Merchants Group Ltd. indirectly held in aggregate 29.97% of the share capital of the Company; China Ocean Shipping Company Limited and COSCO Shipping (Guangzhou) Co., Ltd. are both holding subsidiaries of China COSCO Shipping Corporation Limited; The share transfer registration of 1,258,949,171 A shares of the Company held by Anbang Property & Casualty Insurance Company Ltd. (hereinafter referred to as “Anbang Insurance”) to Hexie Health Insurance Co., Ltd. (referred to as Hexie Health) has been completed. Anbang Insurance and Hexie Health are both holding subsidiaries of Anbang Insurance Group Co., Ltd.. For details, please refer to the relevant announcements of the Company on the website of the Shanghai Stock Exchange, the website of The Stock Exchange of Hong Kong Limited and the website of the Company dated 2 July 2018 and 6 September 2018, respectively. The Company is not aware of any affiliated relationships among other shareholders.
3. The above shareholders of A shares did not hold the shares of the Company through credit securities accounts.

#### ***2.4.2 Information on the shareholders of preference shares***

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. During the reporting period, the Company did not restore any voting right of the preference shares.

As at the end of the reporting period, the shareholdings of the top 10 shareholders of offshore preference shares (or their nominees) of the Company were as follows:

Serial No.	Name of shareholder	Nature of shareholder	Type of shares	Shares held at the end of the period (share)	Percentage of shareholdings (%)	Number of shares subject to trading moratorium (share)	Number of 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

*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 were as follows:

Serial No.	Name of shareholders	Nature of shareholders	Type of shares	Shares held at the end of the period (share)	Percentage of shareholdings (%)	Number of shares subject to trading moratorium (share)	Number of 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 Co., Ltd.	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	-	-

Notes:

- The shareholdings of preference shareholders are calculated based on the information listed in the register of shareholders of preference shares maintained by the Company.
- 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.
- "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.

## 2.5 Management discussion and analysis

### 2.5.1 Analysis of operating status of the Group

As at the end of September 2018, total assets of the Group amounted to RMB6,508.681 billion, representing an increase of 3.35% as compared with the end of the previous year; and its total liabilities amounted to RMB5,979.792 billion, representing an increase of 2.85% as compared with the end of the previous year. As at the end of September 2018, the Group's total loans and advances to customers amounted to RMB3,953.555 billion, representing an increase of 10.90% as compared with the end of the previous year. Total deposits from customers amounted to RMB4,300.067 billion, representing an increase of 5.80% as compared with the end of the previous year.

For the period from January to September 2018, the Group realised a net profit attributable to shareholders of the Bank of RMB67.380 billion, representing an increase of 14.58% as compared with the same period of last year, and net operating income of RMB188.281 billion, representing a year-on-year increase of 13.18%, or 12.24% after elimination of the impact of implementing the New Financial Instruments Standard.

For the period from January to September 2018, net interest income of the Group amounted to RMB117.972 billion, representing an increase of 9.86% as compared with the same period of last year and accounting for 62.66% of the net operating income. For the period from January to September 2018, the Group's net interest spread and net interest margin were 2.41% and 2.54%, respectively, both representing an increase of 0.12 percentage point as compared with the same period of last year; for the third quarter of 2018, the Group's net interest spread was 2.40%, flat over the second quarter of 2018 and net interest margin was 2.54%, representing an increase of 0.01 percentage point as compared with the second quarter of 2018.

For the period from January to September 2018, the Group realised net non-interest income of RMB70.309 billion, representing a year-on-year increase of 19.22% and accounting for 37.34% of the net operating income. Impacted by the New Financial Instruments Standard, the classification of part of the financial assets was adjusted to be accounted for as investments at fair value through profit or loss since 2018, and the corresponding income was re-accounted for as non-interest income instead of interest income. If not taking into account such impact, the net non-interest income would increase by 7.97% as compared with the corresponding period of the previous year. Among the net non-interest income, net fee and commission income increased by 7.39% to RMB52.981 billion from that for the corresponding period of the previous year, accounting for 28.14% of the net operating income, and representing a year-on-year decrease of 1.51 percentage points; and other net non-interest income amounted to RMB17.328 billion, representing a year-on-year increase of 79.71%, which was mainly due to the impact of the New Financial Instruments Standard mentioned above.

For the period from January to September 2018, the cost-to-income ratio of the Group was 27.62%, representing a year-on-year increase of 0.37 percentage point on the same statistical calibre.

As at the end of September 2018, the balance of non-performing loans of the Group amounted to RMB56.247 billion, representing a decrease of RMB1.146 billion as compared with the end of the previous year; the non-performing loan ratio was 1.42%, down by 0.19 percentage point as compared with the end of the previous year; and the allowance coverage ratio of non-performing loans was 325.98%, up by 63.87 percentage points as compared with the end of the previous year; the allowance-to-loan ratio was 4.64%, up by 0.42 percentage point as compared with the end of the previous year.

## 2.5.2 Analysis of operating status of the Company

**Both our deposits and loans grew steadily.** As at the end of September 2018, total assets of the Company amounted to RMB6,117.296 billion, representing an increase of 2.93% as compared with the end of the previous year; total liabilities amounted to RMB5,616.472 billion, representing an increase of 2.45% as compared with the end of the previous year. As at the end of September 2018, the Company's total loans and advances to customers amounted to RMB3,663.539 billion, representing an increase of 10.80% as compared with the end of the previous year, among which, corporate loans, retail loans and discounted bills accounted for 40.98%, 52.43% and 6.59%, respectively. As at the end of September 2018, the Company's total deposits from customers amounted to RMB4,113.270 billion, representing an increase of 5.74% as compared with the end of the previous year, among which, demand deposits and time deposits accounted for 60.29% and 39.71%, respectively. Among the demand deposits, corporate deposits accounted for 60.18% while retail deposits accounted for 39.82%; and among the time deposits, corporate deposits accounted for 76.12% while retail deposits accounted for 23.88%.

**Our profits grew steadily.** For the period from January to September 2018, the Company realised a net profit of RMB63.334 billion, representing an increase of 16.35% as compared with the same period of last year. The Company realised net operating income of RMB177.386 billion, representing a year-on-year increase of 13.54%. Among which, net operating income from the retail finance business amounted to RMB87.499 billion, representing a year-on-year increase of 16.25%, and accounting for 49.33% of the net operating income of the Company.

For the period from January to September 2018, net interest income of the Company amounted to RMB114.763 billion, representing a year-on-year increase of 9.81% and accounting for 64.70% of the net operating income. Net interest spread and net interest margin of the Company for the period from January to September 2018 were 2.48% and 2.61%, representing a year-on-year increase of 0.12 percentage point and 0.11 percentage point, respectively. For the third quarter of 2018, the Company's net interest spread was 2.46%, representing a decrease of 0.03 percentage point as compared with the second quarter of 2018 and net interest margin was 2.61%, flat over the second quarter of 2018.

For the period from January to September 2018, the Company realised a net non-interest income of RMB62.623 billion, representing a year-on-year increase of 21.07%, and accounting for 35.30% of the net operating income of the Company, or a year-on-year increase of 8.25% if not taking into account the impact of implementing the New Financial Instruments Standard. Among the net non-interest income, net fee and commission income increased by 7.80% to RMB49.160 billion as compared with the corresponding period of the previous year, among which, fee and commission income from wealth management business amounted to RMB21.907 billion (including: income from entrusted wealth management services of RMB7.488 billion; income from agency distribution of funds of RMB5.765 billion; income from agency distribution of trust schemes of RMB4.555 billion; income from agency distribution of insurance policies of RMB4.031 billion and income from agency distribution of precious metals of RMB0.068 billion).

For the period from January to September 2018, operating expenses of the Company amounted to RMB50.481 billion, representing a year-on-year increase of 14.50%; the cost-to-income ratio was 27.60%, representing a year-on-year increase of 0.36 percentage point on the same statistical calibre.

**Capital adequacy ratio and utilisation efficiency remained at a relatively satisfactory level.** As at the end of September 2018, the capital adequacy ratio and Tier 1 capital adequacy ratio of the Company measured under the advanced approach were 15.11% and 12.47% respectively, up by 2.88 percentage points and 1.90 percentage points respectively as compared with those under the weighted approach. The risk adjusted return on capital (RAROC) before tax under the advanced approach was 31.62%, maintaining at a high level.

**Asset quality was maintained and improved.** As at the end of September 2018, the balance of the Company's non-performing loans amounted to RMB53.966 billion, representing a decrease of RMB1.373 billion as compared with the end of the previous year, and the non-performing loan ratio was 1.47%, down by 0.20 percentage point as compared with the end of the previous year. Keeping abreast of the macroeconomic and financial development, the Company steadily promoted the improvement of risk management from seeking "temporary treatments" to imposing "final solutions". Continuously improving the comprehensive risk management system, the Company optimised the risk preference conveyance and management mechanism, prevented cross-financial risks, reinforcing the "look-through" approach and gearing back onto the essence of the business development. Following the national strategic plans such as the "13th Five-Year Plan", the Company proactively supported the development of real economy and continued to optimise asset portfolio allocation. The Company stepped up its efforts to withdraw loans from "zombie enterprises", as well as the highly leveraged but low value enterprises and the high risk but low value enterprises in the industries with overcapacity, and implemented the customer list management at the Head Office and its branches for strategic customers and the industrial customers which should be reduced and declined. In addition, the Company further promoted the optimisation of the loan granting procedures to consolidate the management base, continued to build up the Big Data risk control platform to deepen the application of Fintech, promoted the optimisation of the models for risk-rating, the provision for expected credit losses arising from the New Financial Instruments Standard and early-warning, further enhanced the practicality and accuracy of the risk management quantification tools and steadily promoted the disposal of non-performing assets. As a result, the asset quality was controlled effectively.

**The provisions for risk-bearing loans were made in a prudent manner.** The Company continued to adopt a stable and prudent policy in respect of making provisions. As at the end of September 2018, the balance of allowance for losses on loans of the Company amounted to RMB178.844 billion, representing an increase of RMB32.175 billion as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 331.40%, representing an increase of 66.36 percentage points as compared with the end of the previous year; the allowance-to-loan ratio was 4.88%, representing an increase of 0.44 percentage point as compared with the end of the previous year.

### 3 SIGNIFICANT EVENTS

#### 3.1 Significant changes in major financial statements items and financial indicators and the reasons thereof

*(Unless otherwise stated, amounts expressed in millions of RMB)*

Major items	30 September 2018	Changes over the end of last year (%)	Major reasons
Placements with banks and other financial institutions	240,752	55.70	Increase in placements with banks and other financial institutions
Amounts held under resale agreements	167,905	(33.52)	Decrease in debt securities held under resale agreements
Investments at fair value through profit or loss	174,160	168.78	Expansion of the scope of these assets under the New Financial Instruments Standard
Derivative financial assets	33,096	74.96	Increase in derivative transactions
Debt investments at fair value through other comprehensive income	379,517	N/A	New item under the New Financial Instruments Standard
Equity investments designated at fair value through other comprehensive income	3,605	N/A	New item under the New Financial Instruments Standard
Debt investments at amortised cost	895,281	N/A	New item under the New Financial Instruments Standard

<b>Major items</b>	<b>30 September 2018</b>	<b>Changes over the end of last year (%)</b>	<b>Major reasons</b>
Available-for-sale financial assets	N/A	N/A	Abolished item under the New Financial Instruments Standard
Held-to-maturity investments	N/A	N/A	Abolished item under the New Financial Instruments Standard
Investments classified as receivables	N/A	N/A	Abolished item under the New Financial Instruments Standard
Interests in associates	1,462	7,210.00	Increase in investment in associates
Intangible assets	10,518	44.98	Increase in land use rights
Placements from banks and other financial institutions	189,074	(30.67)	Decrease in placements from banks and other financial institutions
Financial liabilities at fair value through profit or loss	39,559	48.61	Increase in debt issuance designated to be measured at fair value through profit or loss and increase in precious metals business for customers
Derivative financial liabilities	34,264	56.76	Increase in the volume of derivative transactions
Salaries and welfare payable	12,845	60.16	Increase in salaries payable
Contract liabilities	4,797	N/A	New item under IFRS 15
Provision	5,235	1,063.33	Impact of implementing the New Financial Instruments Standard
Investment revaluation reserve	2,587	N/A	Impact of implementing the New Financial Instruments Standard and increase in bond valuation
Hedging reserve	99	N/A	Increase in fair value of hedging instrument
Exchange reserve	1,424	N/A	Effect of changes in foreign exchange rates

<b>Major items</b>	<b>For the period from January to September 2018</b>	<b>Changes over the same period of last year (%)</b>	<b>Major reasons</b>
Other net income	16,203	80.25	Expansion of the scope of financial assets at fair value through profit or loss under the New Financial Instruments Standard and the increase in valuation gains and losses
Share of profits of joint ventures	897	37.58	Increase in net profit of joint ventures
Share of profits of associates	228	22,700.00	Increase in investment in associates
Income tax	(21,015)	36.35	Growth in profit and reversal of part of the deferred tax assets
Net profit attributable to non-controlling interests	184	(48.75)	Decrease in profit and loss of minority interests
Exchange difference on translation of financial statements of foreign operations	2,118	N/A	Effect of changes in foreign exchange rates
Available-for-sale financial assets: net movement in fair value reserve	N/A	N/A	Abolished item under the New Financial Instruments Standard
Cash flow hedge: net movement in hedging reserve	185	N/A	Increase in fair value of hedging instruments

Major items	For the period from January to September 2018	Changes over the same period of last year (%)	Major reasons
Equity-accounted investees share of other comprehensive income that will be reclassified subsequently to profit or loss	(85)	N/A	Decrease in other comprehensive income of investees
Change in fair value of debt investments at fair value through other comprehensive income	3,744	N/A	New item under the New Financial Instruments Standard
Change in fair value of equity investments designated at fair value through other comprehensive income	368	N/A	New item under the New Financial Instruments Standard

**3.2 Warning in respect of forecast of a probable loss or a significant change in the accumulated net profit from the beginning of the year to the end of the next reporting period or as compared with that of the corresponding period of last year and the reasons thereof**

Applicable     Not applicable

**3.3 Update on changes in accounting policy**

Pursuant to IFRS 9 – Financial Instruments issued by the International Accounting Standards Board, the Group has changed its accounting policies for financial instruments and made disclosures in the financial statements according to the New Financial Instruments Standard since 2018. According to the provisions for the transitional period, the Group adjusted the retained earnings and other comprehensive income at the beginning of 2018 instead of restating the comparable figures as at the end of 2017 and those for the corresponding period of the previous year.

**3.4 Uncompleted performance of overdue undertakings for the reporting period**

Applicable     Not applicable

### **3.5 Other significant events requiring explanations and progress thereof**

As considered and approved by the 22nd meeting of the Tenth Session of the Board of Directors of the Company, the Company intended to invest RMB5 billion to initiate the establishment of an asset management subsidiary, Zhaoyin Asset Management Co., Ltd. (招銀資產管理有限責任公司). For details, please refer to the relevant announcements dated 23 March 2018 published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company. The Company is currently steadily carrying out the application and preparation.

**The Board of Directors of  
China Merchants Bank Co., Ltd.**

30 October 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, Zhou Song, 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.*

**APPENDIX I — FINANCIAL STATEMENTS**  
**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
*(Expressed in millions of Renminbi unless otherwise stated)*

	For the period from January to September ended 30 September		For the period from July to September ended 30 September	
	2018	2017	2018	2017
Interest income	200,344	178,008	69,169	61,615
Interest expense	(82,372)	(70,623)	(28,209)	(25,126)
<b>Net interest income</b>	<b>117,972</b>	107,385	<b>40,960</b>	36,489
Fee and commission income	57,620	53,599	17,222	16,073
Fee and commission expense	(4,639)	(4,265)	(1,710)	(1,489)
<b>Net fee and commission income</b>	<b>52,981</b>	49,334	<b>15,512</b>	14,584
<b>Other net income</b>	<b>16,203</b>	8,989	<b>5,423</b>	2,005
<b>Operating income</b>	<b>187,156</b>	165,708	<b>61,895</b>	53,078
Operating expenses	(54,892)	(47,946)	(19,163)	(17,504)
<b>Operating profit before impairment losses</b>	<b>132,264</b>	117,762	<b>42,732</b>	35,574
Impairment losses	(44,810)	(43,838)	(13,381)	(11,190)
Share of profits of joint ventures	897	652	278	251
Share of profits of associates	228	1	5	—
<b>Profit before tax</b>	<b>88,579</b>	74,577	<b>29,634</b>	24,635
Less: income tax	(21,015)	(15,413)	(6,939)	(4,937)
<b>Net Profit</b>	<b>67,564</b>	59,164	<b>22,695</b>	19,698
Attributable to:				
Shareholders of the Bank	67,380	58,805	22,624	19,546
Non-controlling interests	184	359	71	152
<b>Earnings per share</b>				
Basic and diluted earnings per share (RMB)	<b>2.66</b>	2.33	<b>0.88</b>	0.78



**UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*(Expressed in millions of Renminbi unless otherwise stated)*

	For the period from January to September ended 30 September		For the period from July to September ended 30 September	
	2018	2017	2018	2017
<b>Net profit</b>	<b>67,564</b>	59,164	<b>22,695</b>	19,698
<b>Other comprehensive income that will be reclassified subsequently to profit or loss (after tax and reclassification adjustments)</b>				
Exchange difference on translation of financial statements of foreign operations	<b>2,118</b>	(1,617)	<b>1,539</b>	(666)
Available-for-sale financial assets: net movement in fair value reserve	N/A	(2,815)	N/A	(262)
Cash flow hedge: net movement in hedging reserve	<b>185</b>	(64)	<b>31</b>	19
Equity-accounted investees share of other comprehensive income that will be reclassified subsequently to profit or loss	<b>(85)</b>	45	<b>1</b>	24
Change in fair value of debt investments at fair value through other comprehensive income	<b>3,744</b>	N/A	<b>713</b>	N/A
<b>Other comprehensive income that will not be reclassified subsequently to profit or loss</b>				
Change in fair value of equity investments designated at fair value through other comprehensive income	<b>368</b>	N/A	<b>246</b>	N/A
<b>Total other comprehensive income for the period</b>	<b>6,330</b>	(4,451)	<b>2,530</b>	(885)
Other comprehensive income attributable to shareholders of the Bank	<b>6,482</b>	(4,457)	<b>2,633</b>	(888)
Other comprehensive income attributable to non-controlling interests	<b>(152)</b>	6	<b>(103)</b>	3
<b>Total comprehensive income for the period</b>	<b>73,894</b>	54,713	<b>25,225</b>	18,813
Comprehensive income attributable to shareholders of the Bank	<b>73,862</b>	54,348	<b>25,257</b>	18,658
Comprehensive income attributable to non-controlling interests	<b>32</b>	365	<b>(32)</b>	155

**UNAUDITED STATEMENT OF PROFIT OR LOSS**  
*(Expressed in millions of Renminbi unless otherwise stated)*

	For the period from January to September ended 30 September		For the period from July to September ended 30 September	
	2018	2017	2018	2017
Interest income	<b>191,335</b>	170,463	<b>66,062</b>	58,955
Interest expense	<b>(76,572)</b>	(65,948)	<b>(26,339)</b>	(23,357)
<b>Net interest income</b>	<b>114,763</b>	104,515	<b>39,723</b>	35,598
Fee and commission income	<b>53,535</b>	49,610	<b>15,955</b>	14,568
Fee and commission expense	<b>(4,375)</b>	(4,007)	<b>(1,615)</b>	(1,414)
<b>Net fee and commission income</b>	<b>49,160</b>	45,603	<b>14,340</b>	13,154
<b>Other net income</b>	<b>12,922</b>	5,950	<b>4,326</b>	915
<b>Operating income</b>	<b>176,845</b>	156,068	<b>58,389</b>	49,667
Operating expenses	<b>(50,481)</b>	(44,090)	<b>(17,742)</b>	(16,141)
<b>Operating profit before impairment losses</b>	<b>126,364</b>	111,978	<b>40,647</b>	33,526
Impairment losses	<b>(43,602)</b>	(43,386)	<b>(13,114)</b>	(11,166)
Share of profits of joint ventures	<b>541</b>	171	<b>177</b>	64
<b>Profit before tax</b>	<b>83,303</b>	68,763	<b>27,710</b>	22,424
Less: income tax	<b>(19,969)</b>	(14,331)	<b>(6,549)</b>	(4,561)
<b>Net profit</b>	<b>63,334</b>	54,432	<b>21,161</b>	17,863

## UNAUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in millions of Renminbi unless otherwise stated)

	For the period from January to September ended 30 September		For the period from July to September ended 30 September	
	2018	2017	2018	2017
<b>Net profit</b>	<b>63,334</b>	54,432	<b>21,161</b>	17,863
<b>Other comprehensive income that will be reclassified subsequently to profit or loss (after tax and reclassification adjustments)</b>				
Exchange difference on translation of financial statements of foreign operations	247	–	90	–
Available-for-sale financial assets: net movement in fair value reserve	N/A	(3,127)	N/A	(264)
Cash flow hedge: net movement in hedging reserve	59	(64)	19	19
Equity-accounted investees share of other comprehensive income that will be reclassified subsequently to profit or loss	(85)	39	(4)	21
Change in fair value of debt investments at fair value through other comprehensive income	3,816	N/A	741	N/A
<b>Other comprehensive income that will not be reclassified subsequently to profit or loss</b>				
Change in fair value of equity investments designated at fair value through other comprehensive income	347	N/A	246	N/A
<b>Total other comprehensive income for the period</b>	<b>4,384</b>	(3,152)	<b>1,092</b>	(224)
<b>Total comprehensive income for the period</b>	<b>67,718</b>	51,280	<b>22,253</b>	17,639

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***(Expressed in millions of Renminbi unless otherwise stated)*

	<b>30 September 2018</b>	31 December 2017
<b>Assets</b>		
Cash	14,238	16,412
Precious metals	7,706	9,309
Balances with central bank	519,999	600,007
Balances with banks and other financial institutions	99,452	76,918
Placements with banks and other financial institutions	240,752	154,628
Amounts held under resale agreements	167,905	252,550
Loans and advances to customers	3,770,356	3,414,612
Interest receivable	32,112	28,726
Investments at fair value through profit or loss	174,160	64,796
Derivative financial assets	33,096	18,916
Debt investments at fair value through other comprehensive income	379,517	N/A
Equity investments designated at fair value through other comprehensive income	3,605	N/A
Debt investments at amortised cost	895,281	N/A
Available-for-sale financial assets	N/A	383,101
Held-to-maturity investments	N/A	558,218
Investments classified as receivables	N/A	572,241
Interests in joint ventures	6,126	5,059
Interests in associates	1,462	20
Property and equipment	53,762	49,812
Investment properties	1,559	1,612
Intangible assets	10,518	7,255
Goodwill	9,954	9,954
Deferred tax assets	57,541	50,120
Other assets	29,580	23,372
<b>Total assets</b>	<b>6,508,681</b>	<b>6,297,638</b>

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)***(Expressed in millions of Renminbi unless otherwise stated)*

	<b>30 September 2018</b>	31 December 2017
<b>Liabilities</b>		
Borrowings from central bank	<b>378,996</b>	414,838
Deposits from banks and other financial institutions	<b>414,833</b>	439,118
Placements from banks and other financial institutions	<b>189,074</b>	272,734
Amounts sold under repurchase agreements	<b>101,031</b>	125,620
Deposits from customers	<b>4,300,067</b>	4,064,345
Interest payable	<b>36,305</b>	36,501
Financial liabilities at fair value through profit or loss	<b>39,559</b>	26,619
Derivative financial liabilities	<b>34,264</b>	21,857
Debt securities issued	<b>358,573</b>	296,477
Salaries and welfare payable	<b>12,845</b>	8,020
Tax payable	<b>20,113</b>	26,701
Deferred tax liabilities	<b>1,121</b>	1,070
Contract liabilities	<b>4,797</b>	N/A
Provision	<b>5,235</b>	450
Other liabilities	<b>82,979</b>	79,896
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>5,979,792</b>	5,814,246
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Equity</b>		
Share capital	<b>25,220</b>	25,220
Other equity instruments	<b>34,065</b>	34,065
Including: Preference shares	<b>34,065</b>	34,065
Capital reserve	<b>67,523</b>	67,523
Investment revaluation reserve	<b>2,587</b>	(3,812)
Hedging reserve	<b>99</b>	(86)
Surplus reserve	<b>46,159</b>	46,159
Regulatory general reserve	<b>70,810</b>	70,921
Retained profits	<b>277,749</b>	219,878
Proposed profit appropriations	<b>–</b>	21,185
Exchange reserve	<b>1,424</b>	(843)
	<hr/>	<hr/>
Total equity attributable to shareholders of the Bank	<b>525,636</b>	480,210
Non-controlling interests	<b>3,253</b>	3,182
Including: Minority interests	<b>2,233</b>	2,012
Perpetual debt capital	<b>1,020</b>	1,170
	<hr/>	<hr/>
<b>Total equity</b>	<b>528,889</b>	483,392
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<b>Total equity and liabilities</b>	<b>6,508,681</b>	6,297,638
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**UNAUDITED STATEMENT OF FINANCIAL POSITION***(Expressed in millions of Renminbi unless otherwise stated)*

	<b>30 September 2018</b>	31 December 2017
<b>Assets</b>		
Cash	<b>13,566</b>	15,724
Precious metals	<b>7,625</b>	9,243
Balances with central bank	<b>515,899</b>	583,692
Balances with banks and other financial institutions	<b>65,100</b>	43,189
Placements with banks and other financial institutions	<b>241,247</b>	165,511
Amounts held under resale agreements	<b>167,905</b>	252,464
Loans and advances to customers	<b>3,484,828</b>	3,159,655
Interest receivable	<b>30,350</b>	27,216
Investments at fair value through profit or loss	<b>161,034</b>	57,902
Derivative financial assets	<b>32,427</b>	17,691
Debt investments at fair value through other comprehensive income	<b>342,379</b>	N/A
Equity investments designated at fair value through other comprehensive income	<b>3,122</b>	N/A
Debt investments at amortised cost	<b>894,513</b>	N/A
Available-for-sale financial assets	N/A	341,571
Held-to-maturity investments	N/A	557,942
Investments classified as receivables	N/A	570,175
Interests in subsidiaries	<b>43,901</b>	43,901
Interest in joint ventures	<b>3,551</b>	3,095
Property and equipment	<b>22,516</b>	23,145
Investment properties	<b>591</b>	621
Intangible assets	<b>9,598</b>	6,354
Deferred tax assets	<b>56,087</b>	48,734
Other assets	<b>21,057</b>	15,550
<b>Total assets</b>	<b><u>6,117,296</u></b>	<b><u>5,943,375</u></b>

**UNAUDITED STATEMENT OF FINANCIAL POSITION (CONTINUED)***(Expressed in millions of Renminbi unless otherwise stated)*

	<b>30 September 2018</b>	31 December 2017
<b>Liabilities</b>		
Borrowings from central bank	<b>378,996</b>	414,838
Deposits from banks and other financial institutions	<b>397,327</b>	421,251
Placements from banks and other financial institutions	<b>101,388</b>	189,825
Amounts sold under repurchase agreements	<b>100,327</b>	125,585
Deposits from customers	<b>4,113,270</b>	3,890,024
Interest payable	<b>33,953</b>	34,398
Financial liabilities at fair value through profit or loss	<b>39,354</b>	26,437
Derivative financial liabilities	<b>33,533</b>	21,194
Debt securities issued	<b>311,076</b>	260,560
Salaries and welfare payable	<b>11,144</b>	6,245
Tax payable	<b>19,191</b>	25,942
Contract liabilities	<b>4,797</b>	N/A
Provision	<b>5,235</b>	450
Other liabilities	<b>66,881</b>	65,352
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>5,616,472</b>	5,482,101
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<b>Equity</b>		
Share capital	<b>25,220</b>	25,220
Other equity instruments	<b>34,065</b>	34,065
Including: Preference shares	<b>34,065</b>	34,065
Capital reserve	<b>76,681</b>	76,681
Investment revaluation reserve	<b>2,475</b>	(4,093)
Hedging reserve	<b>(27)</b>	(86)
Surplus reserve	<b>46,159</b>	46,159
Regulatory general reserve	<b>69,790</b>	69,790
Retained profits	<b>246,292</b>	192,431
Proposed profit appropriations	<b>–</b>	21,185
Exchange reserve	<b>169</b>	(78)
	<hr/>	<hr/>
<b>Total equity</b>	<b>500,824</b>	461,274
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total equity and liabilities</b>	<b>6,117,296</b>	5,943,375
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**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT***(Expressed in millions of Renminbi unless otherwise stated)*

	<b>For the period from January to September 2018</b>	For the period from January to September 2017
<b>Cash flows from operating activities</b>		
Profit before tax	<b>88,579</b>	74,577
<b>Adjustments for:</b>		
– Impairment losses on loans and advances	<b>43,183</b>	44,038
– (Reversals of)/provisions for impairment losses on investments	<b>1,870</b>	(723)
– (Reversals of)/provisions for impairment losses on other assets	<b>(242)</b>	523
– Unwind of discount on impaired loans and advances	<b>(236)</b>	(589)
– Depreciation of properties and equipments and investment properties	<b>3,586</b>	3,758
– Amortisation of other assets	<b>685</b>	408
– Share of profits of joint ventures	<b>(897)</b>	(652)
– Share of profits of associates	<b>(228)</b>	(1)
– Net gain on debt securities and equity investments	<b>(8,907)</b>	(4,532)
– Interest income on investments	<b>(36,263)</b>	(34,651)
– Interest expense on issued debt securities	<b>10,421</b>	9,776
– Net gains on disposal of properties and equipment	<b>(63)</b>	–
<b>Changes in:</b>		
Balances with central bank	<b>43,331</b>	11
Balances and placements with banks and other financial institutions with original maturity over 3 months	<b>7,378</b>	41,770
Loans and advances to customers	<b>(411,959)</b>	(383,518)
Other assets	<b>12,886</b>	5,559
Deposits from customers	<b>235,722</b>	172,170
Placements from banks and other financial institutions	<b>(132,534)</b>	(116,557)
Borrowings from central bank	<b>(35,842)</b>	714
Other liabilities	<b>38,077</b>	20,125
	-----	-----
<b>Cash used in operating activities before income tax payment</b>	<b>(141,453)</b>	(167,794)
<b>Income tax paid</b>	<b>(33,252)</b>	(24,881)
	-----	-----
<b>Net cash used in operating activities</b>	<b>(174,705)</b>	(192,675)
	-----	-----



## UNAUDITED CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(Expressed in millions of Renminbi unless otherwise stated)

	For the period from January to September 2018	For the period from January to September 2017
<b>Cash flows from investing activities</b>		
Payment for the purchase of investments	(529,156)	(499,943)
Proceeds from the disposal of investments	652,667	482,205
Gains received from investments	42,002	48,093
Payment for the purchase of properties and equipments and other assets	(11,069)	(8,457)
Proceeds from the disposal of properties and equipments and other assets	575	96
Disposal of net cash received by subsidiaries, joint ventures or associates	9	2
Net cash received that was paid by subsidiaries, joint ventures or associates	(1,033)	—
	-----	-----
<b>Net cash generated from investing activities</b>	<b>153,995</b>	<b>21,996</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of certificates of deposits	29,615	21,717
Proceeds from the issue of debt securities	43,042	51,996
Proceeds from the issue of negotiable interbank certificates of deposits	322,653	472,004
Proceeds from the issue of perpetual debt securities	—	1,170
Repayment of certificates of deposits	(29,219)	(14,900)
Repayment of issued debt securities	(11,199)	(25,214)
Repayment of negotiable interbank certificates of deposits	(302,862)	(392,622)
Interest paid on issued debt securities	(4,883)	(6,025)
Payment for distribution of dividends	(21,185)	(18,663)
Repayment of redemption of non-controlling equity	(36)	—
	-----	-----
<b>Net cash generated from financing activities</b>	<b>25,926</b>	<b>89,463</b>
Increase/(decrease) in cash and cash equivalents	5,216	(81,216)
Effect of foreign exchange rate changes	(1,730)	1,720
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,486</b>	<b>(79,496)</b>
Add: balance of cash and cash equivalents at the beginning of the period	460,425	532,112
<b>Balance of cash and cash equivalents at the end of the period</b>	<b>463,911</b>	<b>452,616</b>
	=====	=====
<b>Cash flows from operating activities include:</b>		
Interest received	160,880	139,976
Interest paid	(70,326)	(59,792)
	=====	=====

## APPENDIX II INFORMATION ON LIQUIDITY COVERAGE RATIO

The Group prepared and disclosed information on liquidity coverage ratio in accordance with the “Measures for the Disclosure of Information on Liquidity Coverage Ratio by Commercial Banks”. The basis used herein may differ from those adopted in Hong Kong or other countries. The average of liquidity coverage ratio of the Bank was 132.28% in the third quarter of 2018, representing a decrease of 9.81 percentage points as compared with the previous quarter, which was mainly due to the decrease in cash inflows of financial institution due within the next 30 days. The Group’s liquidity coverage ratio at the end of the third quarter of 2018 was 103.68%, which was in line with the 2018 regulatory requirements of the China Banking and Insurance Regulatory Commission. The breakdown of the Group’s three-month average value of each item in the third quarter of 2018 is set out below:

(Unit: in millions of RMB, except for percentages)

Serial No.		Unweighted amount (Average value)	Weighted amount (Average value)
<b>Stock of high quality liquid assets</b>			
1	Total stock of high quality liquid assets		683,337
<b>Cash outflows</b>			
2	Retail and small business customers deposits, of which:	1,578,267	139,747
3	– Stable deposits	361,601	18,080
4	– Less stable deposits	1,216,666	121,667
5	Unsecured wholesale funding, of which:	2,896,176	1,060,930
6	– Operational deposits(excluding correspondent banks)	1,684,717	420,042
7	– Non-operational deposits(including all counterparties)	1,191,313	620,742
8	– Unsecured debt issuance	20,146	20,146
9	Secured funding		29,725
10	Additional requirements, of which:	1,169,566	352,376
11	– Cash outflows arising from derivative contracts and other transactions arising from related collateral requirements	303,993	303,993
12	– Cash outflows arising from secured debt instruments funding	–	–
13	– Undrawn committed credit and liquidity facilities	865,573	48,383
14	Other contractual obligations to extend funds	20,399	20,399
15	Other contingent funding obligations	4,253,035	70,552
16	<b>Total cash outflows</b>		<b>1,673,729</b>

Cash inflows			
17	Secured lending (including reverse repo and securities borrowing)	316,326	316,326
18	Contractual inflows from fully performing loans	815,715	550,931
19	Other cash inflows	290,257	289,870
20	<b>Total cash inflows</b>	<b>1,422,298</b>	<b>1,157,127</b>
			Adjusted value
21	<b>Total stock of high quality liquid assets</b>		<b>683,337</b>
22	<b>Net cash outflows</b>		<b>516,602</b>
23	<b>Liquidity coverage ratio</b>		<b>132.28%</b>

*Notes:*

1. The data of Mainland China in the above table is a simple arithmetic average of the 90-day value for the latest quarter and the monthly average for the date of subsidiaries.
2. The high quality liquid assets in the above table are prepared by the central bank reserve available under cash and pressure conditions, as well as the bond in line with the definition of Tier 1 and Tier 2 assets set by China Banking and Insurance Regulatory Commission on the “Measures for the Liquidity Risk Management of Commercial Banks”.