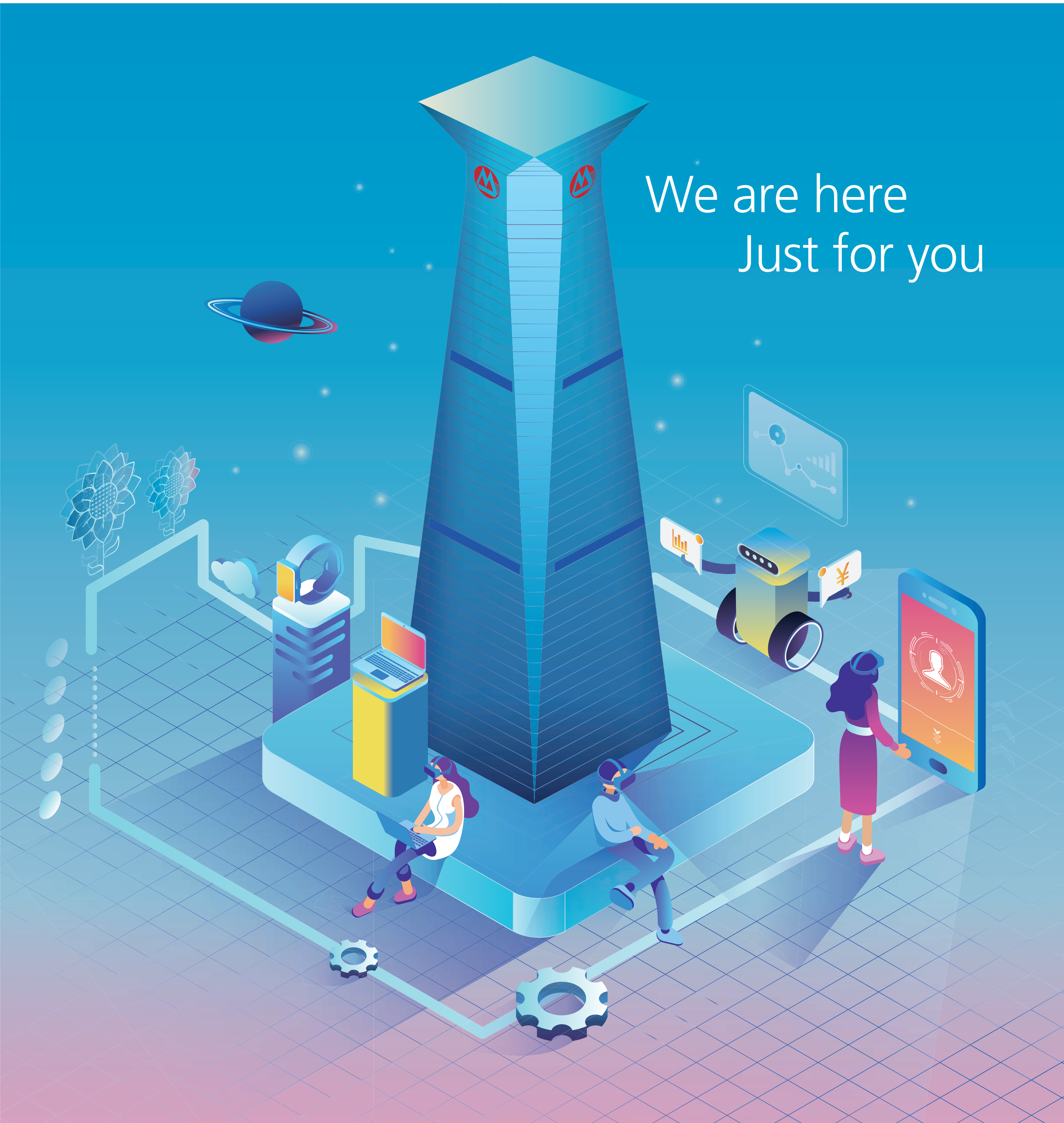
招商銀行
CHINA MERCHANTS BANK

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
Offshore Preference Share Stock Code : 04614

2018 Interim Report



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.

Contents

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.

I 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 17USDPREF
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*.

II Summary of Accounting Data and Financial Indicators

2.1 Key accounting data and financial indicators

Operating Results

	January to June 2018	January to June 2017	Changes +/(-)%
	(in millions of RMB)		
Net operating income[1]	**126,103**	113,032	11.56
Profit before tax	**58,945**	49,942	18.03
Net profit attributable to the Bank's shareholders	**44,756**	39,259	14.00

Per Share

	January to June 2018	January to June 2017	Changes +/(-)%
	(RMB)		
Basic earnings attributable to ordinary shareholders of the Bank[2]	**1.77**	1.56	13.46
Diluted earnings attributable to ordinary shareholders of the Bank	**1.77**	1.56	13.46

Volume Indicators

	30 June 2018	31 December 2017	Changes +/(-)%
	(in millions of RMB)		
Total assets	**6,537,340**	6,297,638	3.81
of which: total loans and advances to customers	**3,877,868**	3,565,044	8.77
Total liabilities	**6,033,289**	5,814,246	3.77
of which: total deposits from customers	**4,257,803**	4,064,345	4.76
Total equity attributable to shareholders of the Bank	**500,715**	480,210	4.27
Period-end net assets per share attributable to the ordinary shareholders of the Bank (RMB/Share)	**18.50**	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.

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.

III 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 standard[1]. 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	Changes
		(in millions of RMB)	
Net interest income	**77,012**	70,896	6,116
Net fee and commission income	**37,469**	34,750	2,719
Other net income	**10,780**	6,984	3,796
Operating expenses	**(35,729)**	(30,442)	(5,287)
Share of profits of associates and joint ventures	**842**	402	440
Credit impairment losses	**(31,429)**	(32,648)	1,219
Profit before tax	**58,945**	49,942	9,003
Income tax	**(14,076)**	(10,476)	(3,600)
Net profit	**44,869**	39,466	5,403
Net profit attributable to shareholders of the Bank	**44,756**	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%.

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	**1,729,842**	**36,121**	**4.21**	1,651,597	32,451	3.96
Retail loans	**1,828,601**	**53,730**	**5.93**	1,613,404	47,163	5.89
Discounted bills	**174,715**	**4,255**	**4.91**	163,198	1,976	2.44
Loans and advances to customers	**3,733,158**	**94,106**	**5.08**	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.

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		
(in millions of RMB, except for percentages)	**Average balance**	**Interest expenses**	**Annualised average cost ratio (%)**	Average balance	Interest expenses	Annualised average cost ratio (%)
Deposits from corporate customers						
Demand	**1,550,063**	**6,507**	**0.85**	1,470,672	5,124	0.70
Time	**1,232,905**	**16,533**	**2.70**	1,171,623	14,006	2.41
Subtotal	**2,782,968**	**23,040**	**1.67**	2,642,295	19,130	1.46
Deposits from retail customers						
Demand	**1,012,600**	**1,480**	**0.29**	969,894	1,749	0.36
Time	**402,614**	**5,147**	**2.58**	333,911	3,337	2.02
Subtotal	**1,415,214**	**6,627**	**0.94**	1,303,805	5,086	0.79
Total deposits from customers	**4,198,182**	**29,667**	**1.43**	3,946,100	24,216	1.24

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.

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	**3,733,158**	**94,106**	**5.08**	3,508,470	168,858	4.81	3,428,199	81,590	4.80
Investments	**1,279,833**	**24,098**	**3.80**	1,432,408	52,042	3.63	1,414,121	24,653	3.52
Balances with the Central Bank	**521,914**	**4,027**	**1.56**	566,594	8,679	1.53	568,452	4,279	1.52
Balances and placements with banks and other financial institutions	**587,170**	**8,944**	**3.07**	459,129	12,426	2.71	461,410	5,871	2.57
Total	**6,122,075**	**131,175**	**4.32**	5,966,601	242,005	4.06	5,872,182	116,393	4.00

	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	**4,198,182**	**29,667**	**1.43**	3,965,462	50,329	1.27	3,946,100	24,216	1.24
Deposits and placements from banks and other financial institutions	**877,510**	**12,438**	**2.86**	880,787	24,138	2.74	867,224	11,172	2.60
Debt securities issued	**310,083**	**6,611**	**4.30**	339,320	13,436	3.96	323,450	5,983	3.73
Borrowings from the Central Bank	**351,247**	**5,447**	**3.13**	305,886	9,250	3.02	285,366	4,126	2.92
Total	**5,737,022**	**54,163**	**1.90**	5,491,455	97,153	1.77	5,422,140	45,497	1.69
Net interest income	/	**77,012**	/	/	144,852	/	/	70,896	/
Net interest spread	/	/	**2.42**	/	/	2.29	/	/	2.31
Net interest margin	/	/	**2.54**	/	/	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.

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		Net increase
	Volume	Interest rate	(decrease)
	(in millions of RMB)		
Assets			
Loans and advances to customers	7,687	4,829	12,516
Investments	(2,529)	1,974	(555)
Balances with the Central Bank	(359)	107	(252)
Balances and placements with banks and other financial institutions	1,916	1,157	3,073
Changes in interest income	6,715	8,067	14,782
Liabilities			
Deposits from customers	1,781	3,670	5,451
Deposits and placements from banks and other financial institutions	146	1,120	1,266
Debt securities issued	(285)	913	628
Borrowings from the Central Bank	1,022	299	1,321
Changes in interest expense	2,664	6,002	8,666
Changes in net interest income	4,051	2,065	6,116

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 (%)
	(in millions of RMB, except for percentages)					
Interest-earning assets						
Loans and advances to customers	3,687,583	46,441	5.11	3,778,231	47,665	5.06
Investments	1,287,615	11,965	3.77	1,272,137	12,133	3.83
Balances with the Central Bank	524,198	2,015	1.56	519,656	2,012	1.55
Balances and placements with banks and other financial institutions	545,770	4,168	3.10	628,115	4,776	3.05
Total	6,045,166	64,589	4.33	6,198,139	66,586	4.31

	January to March 2018			April to June 2018		
	Average balance	Interest expenses	Annualised average cost ratio (%)	Average balance	Interest expenses	Annualised average cost ratio (%)
	(in millions of RMB, except for percentages)					
Interest-bearing liabilities						
Deposits from customers	4,169,293	14,570	1.42	4,226,752	15,097	1.43
Deposits and placements from banks and other financial institutions	849,025	5,960	2.85	905,682	6,478	2.87
Debt securities issued	303,118	3,353	4.49	316,971	3,258	4.12
Borrowings from the Central Bank	359,733	2,767	3.12	342,854	2,680	3.14
Total	5,681,169	26,650	1.90	5,792,259	27,513	1.91
Net interest income	/	37,939	/	/	39,073	/
Net interest spread	/	/	2.43	/	/	2.40
Net interest margin	/	/	2.55	/	/	2.53

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.

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	**40,398**	37,526
Bank card fees	**8,126**	6,512
Settlement and clearing fees	**5,788**	5,429
Agency services fees	**9,197**	8,280
Commissions from credit commitment and loan business	**3,333**	2,271
Commissions on trust and fiduciary activities	**11,465**	11,942
Others	**2,489**	3,092
Less: fees and commission expense	**(2,929)**	(2,776)
Net fee and commission income	**37,469**	34,750
Other net non-interest income	**11,622**	7,386
Net gains from fair value changes	**1,056**	121
Net investment income	**6,142**	3,678
Exchange gain	**1,559**	1,605
Other net operating income	**2,023**	1,580
Share of profits of associates and joint ventures	**842**	402
Total net non-interest income	**49,091**	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.

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	**21,523**	17,734
Taxes and surcharges	**987**	1,073
Depreciation of fixed assets and investment properties	**2,503**	2,440
Amortisation of intangible assets	**472**	288
Rental expenses	**2,144**	2,066
Other general and administrative expenses	**7,992**	6,721
Allowances for insurance claims	**108**	120
Total operating expenses	**35,729**	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	**30,378**	33,139
Investments	**1,259**	(960)
Amounts due from banks and other financial institutions	**(106)**	100
Expected off-balance sheet credit impairment losses	**(166)**	N/A
Other assets	**64**	369
Total credit impairment losses	**31,429**	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.

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	**3,877,868**	**59.32**	3,565,044	56.61
Allowances for impairment losses on loans[1]	**(174,955)**	**(2.68)**	(150,432)	(2.39)
Net loans and advances to customers	**3,702,913**	**56.64**	3,414,612	54.22
Investment securities and other financial assets	**1,482,700**	**22.68**	1,602,351	25.44
Cash, precious metals and balances with the Central Bank	**561,256**	**8.59**	625,728	9.94
Balances with banks and other financial institutions	**95,632**	**1.46**	76,918	1.22
Placements with banks and other financial institutions and amounts held under resale agreements	**507,758**	**7.77**	407,178	6.47
Goodwill	**9,954**	**0.15**	9,954	0.16
Other assets[2]	**177,127**	**2.71**	160,897	2.55
Total assets	**6,537,340**	**100.00**	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.

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	**190,850**	**12.87**	64,796	4.04
– Bond investments	**69,241**	**4.67**	64,152	4.00
– Non-standardised credit asset investments	**52,909**	**3.57**	–	–
– Others (note)	**68,700**	**4.63**	644	0.04
Derivative financial assets	**24,764**	**1.67**	18,916	1.18
Debt investments at fair value through other comprehensive income	**354,081**	**23.88**	N/A	N/A
Equity investments designated at fair value through other comprehensive income	**3,282**	**0.22**	N/A	N/A
Debt investments measured at amortised cost	**902,665**	**60.88**	N/A	N/A
– Bond investments	**603,667**	**40.71**	N/A	N/A
– Non-standardised credit asset investments	**306,364**	**20.66**	N/A	N/A
– Others	**522**	**0.04**	N/A	N/A
Less: allowances for impairment losses	**(7,888)**	**(0.53)**	N/A	N/A
Available-for-sale financial assets	**N/A**	**N/A**	383,101	23.91
Held-to-maturity investments	**N/A**	**N/A**	558,218	34.84
Investments classified as receivables	**N/A**	**N/A**	572,241	35.71
Investments in joint ventures and associates	**7,058**	**0.48**	5,079	0.32
Total investment securities and other financial assets	**1,482,700**	**100.00**	1,602,351	100.00

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

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	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
	(in millions of RMB)					
Interest rate derivatives	**4,136,030**	**8,983**	**(8,415)**	2,073,724	2,249	(1,898)
Currency derivatives	**1,345,160**	**15,321**	**(18,589)**	1,305,784	16,345	(19,636)
Other derivatives	**117,338**	**460**	**(457)**	108,927	322	(323)
Total	**5,598,528**	**24,764**	**(27,461)**	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.

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)	**554,230**	497,260
Policy banks	**276,071**	258,213
Commercial banks and other financial institutions	**133,481**	151,101
Others (note)	**63,207**	69,826
Total Bond investments	**1,026,989**	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.

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	**4,257,803**	**70.57**	4,064,345	69.90
Deposits from banks and other financial institutions	**481,679**	**7.98**	439,118	7.55
Borrowings from the Central Bank	**357,316**	**5.92**	414,838	7.13
Placements from banks and other financial institutions	**200,889**	**3.33**	272,734	4.69
Financial liabilities at fair value through profit or loss	**31,405**	**0.52**	26,619	0.46
Derivative financial liabilities	**27,461**	**0.46**	21,857	0.38
Amounts sold under repurchase agreements	**128,105**	**2.12**	125,620	2.16
Debt securities issued	**343,206**	**5.69**	296,477	5.10
Others (note)	**205,425**	**3.41**	152,638	2.63
Total liabilities	**6,033,289**	**100.00**	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.

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	**1,592,426**	**37.40**	1,581,802	38.92
Time	**1,189,895**	**27.95**	1,144,021	28.15
Subtotal	**2,782,321**	**65.35**	2,725,823	67.07
Deposits from retail customers				
Demand	**1,025,259**	**24.08**	972,291	23.92
Time	**450,223**	**10.57**	366,231	9.01
Subtotal	**1,475,482**	**34.65**	1,338,522	32.93
Total deposits from customers	**4,257,803**	**100.00**	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.

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	**3,764,163**	**97.07**	3,450,450	96.79
Special mention	**58,323**	**1.50**	57,201	1.60
Substandard	**10,392**	**0.27**	17,100	0.48
Doubtful	**29,727**	**0.77**	21,577	0.61
Loss	**15,263**	**0.39**	18,716	0.52
Total loans and advances to customers	**3,877,868**	**100.00**	3,565,044	100.00
Total non-performing loans	**55,382**	**1.43**	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.

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	**1,781,687**	**45.95**	**41,012**	**2.30**	1,663,861	46.67	41,522	2.50
Working capital loans	**938,791**	**24.21**	**27,891**	**2.97**	868,844	24.37	27,300	3.14
Fixed asset loans	**432,980**	**11.17**	**5,209**	**1.20**	397,807	11.16	5,770	1.45
Trade finance	**144,308**	**3.72**	**1,654**	**1.15**	159,090	4.46	1,516	0.95
Others(2)	**265,608**	**6.85**	**6,258**	**2.36**	238,120	6.68	6,936	2.91
Discounted bills(3)	**225,341**	**5.81**	**–**	**–**	115,888	3.25	–	–
Retail loans	**1,870,840**	**48.24**	**14,370**	**0.77**	1,785,295	50.08	15,871	0.89
Micro-finance loans	**334,675**	**8.63**	**4,347**	**1.30**	312,716	8.77	5,549	1.77
Residential mortgage loans	**873,291**	**22.52**	**2,322**	**0.27**	833,410	23.38	2,734	0.33
Credit card loans	**512,218**	**13.21**	**5,831**	**1.14**	491,383	13.78	5,470	1.11
Others(4)	**150,656**	**3.88**	**1,870**	**1.24**	147,786	4.15	2,118	1.43
Total loans and advances to customers	**3,877,868**	**100.00**	**55,382**	**1.43**	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.

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	**1,781,687**	**45.95**	**41,012**	**2.30**	1,663,861	46.67	41,522	2.50
Manufacturing	**286,245**	**7.38**	**19,781**	**6.91**	266,200	7.47	17,447	6.55
Property development	**260,796**	**6.73**	**3,321**	**1.27**	236,926	6.65	3,211	1.36
Transportation, storage and postal services	**275,237**	**7.10**	**1,390**	**0.51**	230,035	6.45	2,241	0.97
Wholesale and retail	**186,302**	**4.80**	**8,448**	**4.53**	219,818	6.17	9,101	4.14
Leasing and commercial services	**148,042**	**3.82**	**163**	**0.11**	138,224	3.88	196	0.14
Production and supply of electric power, heat, gas and water	**143,952**	**3.71**	**750**	**0.52**	128,965	3.62	925	0.72
Finance	**104,354**	**2.69**	**3**	**–**	93,474	2.62	1	–
Construction	**108,299**	**2.79**	**1,242**	**1.15**	87,216	2.45	1,452	1.66
Information transmission, software and IT service	**78,795**	**2.03**	**723**	**0.92**	79,335	2.22	1,391	1.75
Water conservancy, environment and public utilities	**69,308**	**1.79**	**166**	**0.24**	65,858	1.84	184	0.28
Mining	**45,639**	**1.18**	**4,346**	**9.52**	43,347	1.22	4,622	10.66
Others(2)	**74,718**	**1.93**	**679**	**0.91**	74,463	2.08	751	1.01
Discounted bills	**225,341**	**5.81**	**–**	**–**	115,888	3.25	–	–
Retail loans	**1,870,840**	**48.24**	**14,370**	**0.77**	1,785,295	50.08	15,871	0.89
Total loans and advances to customers	**3,877,868**	**100.00**	**55,382**	**1.43**	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.

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	**609,302**	**15.71**	**5,984**	**0.98**	596,631	16.74	5,637	0.94
Yangtze River Delta	**796,647**	**20.54**	**10,147**	**1.27**	735,044	20.62	10,893	1.48
Bohai Rim	**497,979**	**12.84**	**9,454**	**1.90**	425,602	11.94	7,266	1.71
Pearl River Delta and West Side of Taiwan Strait	**652,422**	**16.82**	**7,639**	**1.17**	598,374	16.78	8,674	1.45
North-eastern China	**161,650**	**4.17**	**4,513**	**2.79**	145,204	4.07	4,260	2.93
Central China	**379,547**	**9.79**	**5,528**	**1.46**	343,343	9.63	6,394	1.86
Western China	**376,298**	**9.71**	**9,453**	**2.51**	350,991	9.85	12,012	3.42
Overseas	**120,791**	**3.12**	**427**	**0.35**	109,508	3.07	203	0.19
Subsidiaries	**283,232**	**7.30**	**2,237**	**0.79**	260,347	7.30	2,054	0.79
Total loans and advances to customers	**3,877,868**	**100.00**	**55,382**	**1.43**	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.

3.4.5 Distribution of loans and non-performing loans by type of guarantees

	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)							
Credit loans	1,220,864	31.48	8,466	0.69	1,089,261	30.55	7,844	0.72
Guaranteed loans	444,528	11.46	22,740	5.12	418,769	11.75	21,416	5.11
Collateralised loans	1,612,932	41.60	21,156	1.31	1,550,904	43.50	22,931	1.48
Pledged loans	374,203	9.65	3,020	0.81	390,222	10.95	5,202	1.33
Discounted bills	225,341	5.81	–	–	115,888	3.25	–	–
Total loans and advances to customers	**3,877,868**	**100.00**	**55,382**	**1.43**	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.

As at the end of the reporting period, collateralised and pledged loans increased by 2.37% as compared with the end of the previous year. Guaranteed loans increased by 6.15% as compared with the end of the previous year, and the credit loans increased by 12.08% as compared with the end of the previous year while there was a decrease of 0.03 percentage point in the non-performing ratio of credit loans as compared with the end of the previous year.

3.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan balance as at 30 June 2018 (in millions of RMB)	Percentage of net capital (under the advanced approach) (%)	Percentage of total loans (%)
A	Manufacturing	21,300	3.71	0.55
B	Transportation, storage and postal services	9,700	1.69	0.25
C	Transportation, storage and postal services	8,959	1.56	0.23
D	Property development	8,884	1.55	0.23
E	Finance	6,959	1.21	0.18
F	Transportation, storage and postal services	6,840	1.19	0.18
G	Property development	6,421	1.11	0.17
H	Transportation, storage and postal services	6,039	1.05	0.15
I	Property development	5,472	0.95	0.14
J	Property development	5,099	0.89	0.13
Total		**85,673**	**14.91**	**2.21**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB21.300 billion, representing 3.71% of the Group's net capital under the advanced approach. The loan balance of the top ten single borrowers totalled RMB85.673 billion, representing 14.91% of the Group's net capital under the advanced approach, 15.46% of the Group's net capital under the weighted approach, and 2.21% of the Group's total loan balance, respectively.

3.4.7 Distribution of loans by overdue term

	30 June 2018		31 December 2017	
	Loan balance	**Percentage of total loans (%)**	Loan balance	Percentage of total loans (%)
	(in millions of RMB, except for percentages)			
Overdue within 3 months	**19,030**	**0.49**	16,178	0.46
Overdue from 3 months up to 1 year	**15,628**	**0.40**	16,824	0.47
Overdue from 1 year up to 3 years	**23,769**	**0.62**	26,093	0.73
Overdue more than 3 years	**5,126**	**0.13**	2,762	0.08
Total overdue loans	**63,553**	**1.64**	61,857	1.74
Total loans and advances to customers	**3,877,868**	**100.00**	3,565,044	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB63.553 billion, up by RMB1.696 billion from the end of the previous year and accounting for 1.64% of its total loans, representing a decrease of 0.10 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 40.26%, guaranteed loans accounted for 34.37%, while credit loans accounted for 25.37% (the majority of which were overdue loans of credit cards). The Group adopted prudent classification criteria for overdue loans, and the ratio of its non-performing loans to the loans overdue for more than 90 days was 1.24.

3.4.8 Restructured loans

	30 June 2018		31 December 2017	
	Loan balance	**Percentage of total loans (%)**	Loan balance	Percentage of total loans (%)
	(in millions of RMB, except for percentages)			
Restructured loans(note)	**24,632**	**0.64**	18,009	0.51
Of which: restructured loans overdue more than 90 days	**16,865**	**0.44**	11,293	0.32

Note: Represents the restructured non-performing loans.

The Group imposed strict and prudent control over loan restructuring. As at the end of the reporting period, the percentage of the Group's restructured loans to total loans was 0.64%, up by 0.13 percentage point as compared with the end of the previous year.

3.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the balance of repossessed assets (other than equity interests) of the Group amounted to RMB911 million. After deducting the allowances for impairment losses of RMB185 million, the net carrying value amounted to RMB726 million. The balance of repossessed equity interests amounted to RMB180 million, and they were classified as the equity instrument investment designated at fair value through other comprehensive income.

3.4.10 Changes in the allowances for impairment losses on loans

The Group adopted the new financial instruments standards and provided allowances for credit risk losses by using the expected credit loss model. Such allowances were provided on a case-by-case basis based on the risk quantification parameters such as the probability of default relating to credit risk and loss given default, combined with proactive macro adjustments.

The following table sets forth the changes in the allowances for impairment losses on loans and advances of the Group.

	January to June 2018	2017
	(in millions of RMB)	
Balance as at the end of the previous year	**150,432**	110,032
Adjustment at the beginning of the period under the new financial instruments standard	**1,088**	N/A
Balance as at the beginning of the year	**151,520**	110,032
Charge for the period	**79,266**	64,450
Release for the period	**(48,888)**	(4,398)
Transfer into/(out) for the period	**–**	22
Unwinding of discount on impaired loans and advances(note)	**(179)**	(561)
Recovery of loans and advances previously written off	**3,701**	5,519
Write-offs	**(10,490)**	(24,283)
Foreign exchange rate movements	**122**	(349)
Balance at the end of the period	**175,052**	150,432

Note: Represents the interest income accrued on impaired loans as a result of the increase in their present value due to the passage of time.

The Group continued to adopt a stable and prudent policy in respect of making allowances. As at the end of the reporting period, the balance of allowances for impairment losses on loans of the Group amounted to RMB175.052 billion, representing an increase of RMB24.620 billion 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; the loan allowance ratio was 4.51%, representing an increase of 0.29 percentage point as compared with the end of the previous year.

3.5 Analysis of Capital Adequacy Ratio

As at the end of the reporting period, 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 15.08%, 12.51% and 11.61%, respectively, representing an increase of 2.64 percentage points, 1.81 percentage points and 1.68 percentage points respectively as compared with those under the weighted approach.

For details of the reasons for the decrease in the capital adequacy ratio of the Company, please refer to section 3.9.1 headed "Capital management".

The Group	**At the end of the reporting period 30 June 2018**	At the end of the previous year 31 December 2017	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the advanced approach(1)			
Net core Tier 1 capital	**442,609**	425,689	3.97
Net Tier 1 capital	**476,705**	459,782	3.68
Net capital	**574,609**	546,534	5.14
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**3,491,220**	3,291,816	6.06
Of which: Credit risk weighted assets	**3,044,057**	2,848,064	6.88
Market risk weighted assets	**60,971**	57,560	5.93
Operational risk weighted assets	**386,192**	386,192	–
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**3,811,302**	3,530,745	7.95
Core Tier 1 capital adequacy ratio	**11.61%**	12.06%	Decreased by 0.45 percentage point
Tier 1 capital adequacy ratio	**12.51%**	13.02%	Decreased by 0.51 percentage point
Capital adequacy ratio	**15.08%**	15.48%	Decreased by 0.40 percentage point
Information on leverage ratio(2)			
Adjusted balance of on- and off-balance sheet assets	**7,622,475**	7,309,756	4.28
Leverage ratio	**6.25%**	6.29%	Decreased by 0.04 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 the former 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 the end of the reporting period, the Group's subsidiaries for calculating its capital adequacy ratio included Wing Lung Bank, CMB International Capital, CMB Financial Leasing and China Merchants Fund. 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 allowances 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 the implementation of the transition period.

(2) Since 2015, the leverage ratio shall be calculated based on the "Measures for Management of the Leverage Ratio of Commercial Banks (Revised)" promulgated by the former CBRC on 12 February 2015. The leverage ratio of the Group was 6.52%, 6.29% and 6.15% respectively as at the end of the first quarter of 2018, the end of 2017 and the end of the third quarter of 2017.

As at the end of the reporting period, 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 14.85%, 12.12% and 11.21%, respectively, representing an increase of 2.88 percentage points, 1.94 percentage points and 1.79 percentage points respectively as compared with those under the weighted approach.

The Company	**At the end of the reporting period 30 June 2018**	At the end of the previous year 31 December 2017	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the advanced approach			
Net core Tier 1 capital	**385,589**	371,416	3.82
Net Tier 1 capital	**417,042**	402,869	3.52
Net capital	**510,721**	483,546	5.62
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**3,125,621**	2,945,175	6.13
Of which: Credit risk weighted assets	**2,706,820**	2,531,510	6.93
Market risk weighted assets	**56,649**	51,513	9.97
Operational risk weighted assets	**362,152**	362,152	–
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	**3,439,636**	3,173,532	8.39
Core Tier 1 capital adequacy ratio	**11.21%**	11.70%	Decreased by 0.49 percentage point
Tier 1 capital adequacy ratio	**12.12%**	12.69%	Decreased by 0.57 percentage point
Capital adequacy ratio	**14.85%**	15.24%	Decreased by 0.39 percentage point

As at the end of the reporting period, 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 12.44%, 10.70% and 9.93% respectively, representing a decrease of 0.22 percentage point, 0.11 percentage point and 0.08 percentage point, respectively as compared with those at the end of the previous year.

The Group	**At the end of the reporting period 30 June 2018**	At the end of the previous year 31 December 2017	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the weighted approach (note)			
Net core Tier 1 capital	**442,609**	425,689	3.97
Net Tier 1 capital	**476,705**	459,782	3.68
Net capital	**554,129**	538,761	2.85
Risk-weighted assets	**4,455,598**	4,254,180	4.73
Core Tier 1 capital adequacy ratio	**9.93%**	10.01%	Decreased by 0.08 percentage point
Tier 1 capital adequacy ratio	**10.70%**	10.81%	Decreased by 0.11 percentage point
Capital adequacy ratio	**12.44%**	12.66%	Decreased by 0.22 percentage point

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

As at the end of the reporting period, 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 11.97%, 10.18% and 9.42% respectively, representing a decrease of 0.19 percentage point, 0.12 percentage point and 0.08 percentage point, respectively as compared with those at the end of the previous year.

The Company	**At the end of the reporting period 30 June 2018**	At the end of the previous year 31 December 2017	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the weighted approach			
Net core Tier 1 capital	**385,589**	371,416	3.82
Net Tier 1 capital	**417,042**	402,869	3.52
Net capital	**490,240**	475,774	3.04
Risk-weighted assets	**4,095,366**	3,911,286	4.71
Core Tier 1 capital adequacy ratio	**9.42%**	9.50%	Decreased by 0.08 percentage point
Tier 1 capital adequacy ratio	**10.18%**	10.30%	Decreased by 0.12 percentage point
Capital adequacy ratio	**11.97%**	12.16%	Decreased by 0.19 percentage point

Balance of credit risk exposures

During the reporting period, the credit risk of the Company under the foundation internal rating-based approach (IRB approach) was classified into six types of risk exposures: sovereign, financial institution, corporate, retail, shareholding and others. The balances of various risk exposures are as follows:

	Type of risk exposure	Legal person	Group
		(in millions of RMB)	
Portion covered by the IRB approach	Financial institution	1,246,161	1,246,161
	Corporate	1,817,199	1,817,199
	Retail	2,381,281	2,381,281
	Of which: Residential mortgage exposures	915,760	915,760
	Qualified revolving retail	1,039,591	1,039,591
	Other retail	425,930	425,930
Portion not covered by the IRB approach	On-balance sheet	2,114,439	2,512,548
	Off-balance sheet	137,176	149,779
	Counterparty	15,528	16,949

Market risk capital measurement

The Group uses mixed approaches to calculate its market risk capital requirements. Specifically, it uses the internal model approach to calculate the general market risk capital of the Company (excluding overseas branches), and uses the standardised approach to calculate the general market risk capital of the overseas branches and affiliated companies of the Company as well as the specific market risk capital of the Company and its affiliated companies. As at the end of the reporting period, the market risk capital of the Group was RMB4.878 billion, and market risk-weighted assets were RMB60.971 billion. Of which, the general market risk capital calculated under the internal model approach was RMB3.236 billion, and the market risk capital calculated under the standardised approach was RMB1.642 billion.

The Group's market risk capital under the internal model approach was calculated using the market risk value based on 250 days of historical market data, a confidence coefficient of 99% and a holding period of 10 days. The following table sets forth the market risk value indicators of the Group as at the end of the reporting period:

No.	Item	Distressed risk value during the reporting period	General risk value during the reporting period
		(in millions of RMB)	
1	Average value	683	197
2	Maximum value	971	335
3	Minimum value	444	128
4	Value at the end of the period	718	155

3.6 Results of Operating Segments

Business segments

The principal businesses of the Group include wholesale finance and retail finance. The following table summarises the operating results of each business segment of the Group for the periods indicated.

	January to June 2018		January to June 2017	
	Profit before tax	**Net operating income**	Profit before tax	Net operating income
	(in millions of RMB)			
Items				
Wholesale finance	**23,965**	**58,002**	20,889	53,572
Retail finance	**32,090**	**62,910**	27,682	56,150
Other businesses	**2,890**	**5,191**	1,371	3,310
Total	**58,945**	**126,103**	49,942	113,032

During the reporting period, the percentage of profit from retail finance of the Group increased. Profit before tax amounted to RMB32.090 billion, up by 15.92% from the corresponding period of the previous year, accounting for 57.25% of the profit before tax of the business line of the Group and representing a year-on-year increase of 0.26 percentage point; net operating income amounted to RMB62.910 billion, representing a year-on-year increase of 12.04%, accounting for 49.89% of the net operating income of the Group, representing a year-on-year increase of 0.21 percentage point. At the same time, the cost-to-income ratio of retail finance business was 31.51%, representing an increase of 0.96 percentage point as compared with the corresponding period of the previous year.

Geographical segments

The major outlets of the Group are located in the major economic centres of China and some large and medium cities in other regions. The following table sets forth the segment results of the Group by geographical location in the periods indicated.

	Total assets 30 June 2018		Total liabilities 30 June 2018		Total profit before tax January to June 2018	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
	(in millions of RMB, except for percentages)					
Head Office	**2,912,222**	**45**	**2,533,740**	**42**	**5,955**	**10**
Yangtze River Delta	**814,339**	**12**	**803,287**	**13**	**14,138**	**24**
Bohai Rim	**535,915**	**8**	**529,281**	**9**	**8,829**	**15**
Pearl River Delta and West Side of Taiwan Strait	**691,576**	**11**	**682,480**	**11**	**12,056**	**20**
North-eastern China	**163,137**	**2**	**164,148**	**3**	**(827)**	**(1)**
Central China	**388,498**	**6**	**383,870**	**6**	**6,135**	**10**
Western China	**379,912**	**6**	**374,524**	**6**	**7,032**	**12**
Overseas	**208,515**	**3**	**203,998**	**3**	**1,561**	**3**
Subsidiaries	**443,226**	**7**	**357,961**	**7**	**4,066**	**7**
Total	**6,537,340**	**100**	**6,033,289**	**100**	**58,945**	**100**

	Total assets 31 December 2017		Total liabilities 31 December 2017		Total profit before tax January to June 2017	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
	(in millions of RMB, except for percentages)					
Head Office	2,908,217	46	2,557,785	44	2,703	5
Yangtze River Delta	761,970	12	745,677	13	12,822	26
Bohai Rim	492,441	8	484,410	8	8,360	17
Pearl River Delta and West Side of Taiwan Strait	645,313	10	632,515	11	10,733	21
North-eastern China	151,548	2	150,447	3	957	2
Central China	358,334	6	352,226	6	4,328	9
Western China	360,547	6	355,602	6	4,452	9
Overseas	199,836	3	196,693	3	1,229	2
Subsidiaries	419,432	7	338,891	6	4,358	9
Total	6,297,638	100	5,814,246	100	49,942	100

3.7 Other Financial Disclosures in Accordance with the Regulatory Requirements

3.7.1 Balance of off-balance sheet items that may have a material effect on the financial positions and operating results and the related important information

The Group's off-balance sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, pending litigations and disputes and other contingent liabilities. The credit commitment is the primary component. As at the end of the reporting period, the balance of credit commitments of the Group was RMB1,469.224 billion. For details of the contingent liabilities and commitments, please refer to Note 38 of the financial statements.

3.7.2 Outstanding overdue debts

As at the end of the reporting period, the Group did not have any outstanding overdue debts.

The description and data in section 3.8 and below were analysed from the Company's perspective.

3.8 Business Development Strategies

During the reporting period, the Company further promoted the strategic transformation of "Light-operation Bank" and "One Body with Two Wings", and used Fintech as the locomotive to provide "nuclear power" for the second half of the strategic transformation, so as to develop itself into the bank that offers the best customer experience.

Under the "Light-operation Bank" strategy, "Light Management" and "Light Operation" have become the focus for the second half of strategic transformation. Efforts to build a "Digital Bank" have initially generated positive effects, details of which are further described below. Retail finance continued to solidify its pillar function under the "One Body with Two Wings" strategy. The number of retail customers increased by nearly a thousand from the end of the previous year. Monthly active users of CMB APP and CMB Life APP have been increasing at a higher rate. The "Two Wings" operation is showing more unique features alongside a hierarchical management method which allows customers' demand for financial services to be met more precisely. The number of corporate customers exceeded 1.70 million and steady progress was seen in asset management, financial market transactions, investment banking and bills business, thus lending major support to the development of the "Two Wings" and delivering good results in the respective business areas. Please refer to Section 3.10 "Business operation" for relevant details.

Building a Digital Bank at full steam

During the reporting period, the Company upheld the Fintech mentality in order to achieve the goal of "building the best customer experience bank" through the use of Fintech. We have reshuffled our business operation, processes and management with a view to build a Digital Bank at full steam as well as providing sustainable "nuclear power" for the second half of the strategic transformation into a "Light-operation Bank".

1. *The customer-centric approach was taken for retail finance to foster the best customer experience*

The operation model has been undergoing the change from card-based operation to APP-based operation. Customer engagement has been enhanced by the Company by means of strengthening the operation of the mobile banking App and focusing on the customer experience and the core scenarios. During the reporting period, the number of monthly active users of CMB APP and CMB Life APP reached 53,819,900 (excluding repeated users). As at the end of the reporting period, the aggregate number of users of CMB APP was 65.28 million. During the reporting period, the number of monthly active users increased to 32,922,700, the percentage of online acquisition of debit card customers reached 14.07% and the number of transactions and the sales amount of wealth management investments[2] of CMB APP accounted for 75.48% and 55.29% of the Bank respectively. As at the end of the reporting period, the aggregate number of users of CMB Life APP was 56,764,500. During the reporting period, the number of monthly active users increased to 30,461,700, representing an increase of 35.62%. The online customer acquisition percentage reached 59.69%, and the consumer finance transactions successfully conducted through CMB Life APP accounted for 48.81% of the total consumer finance transactions. CMB APP and CMB Life APP have become important front of retail operations for the Company.

The online and offline multidimensional service systems have been established. During the reporting period, the Company, on one hand, continued to adhere to the "mobile priority" development strategy spurred by mobile-centric app, made overall arrangement for financial social media and content services, promoted online and offline collaboration, explored intensive operating models aimed for customers. As a result, 1,876,200 new online accounts were opened. On the other hand, the Company actively explored the digital transformation of outlets and carried out the operation of "outlet + APP + scenario" business model to realise digitisation the outlet management covering entire processes of customer identification, services, referral, marketing, evaluation and others, so as to initiate the integration of the online and offline services and provide customers with online and offline integrated services. As at the end of the reporting period, the redirection rate of customers from the service counters to the video teller machines (VTM) was 87.64%. As a result of diverting offline marketing sales to online Wealth Check-up, the cumulative number of Wealth Check-up users reached 2,294,200 and 12,000 copies of the Asset Allocation Recommendation outlet were issued on a daily average basis.

2 Including the investments in wealth management on custody, funds, precious metals, insurance, etc..

Smart services have been enhanced. With respect to smart transactions, the cumulative sales volume of Machine Gene Investment product amounted to RMB11.625 billion, and the number of customers using Machine Gene Investment reached 166,900. Domestic precious metal arbitrage business was launched through the Company's online quantitative trading system with a cumulative trading volume amounting to RMB22.723 billion. As a result, the performance efficiency was more than 90% higher than manual labor, saving labor costs by more than 80%. **With respect to smart marketing**, the Company continued to upgrade its "Smart Marketing Platform" and "Personalised Referral System", generating more than 1,500 user portraits, increased the number of sub-labels by sixfold, the number of applications by marketed customers by 2.6 fold, the efficiency of analysis of the list of targeted customers by fivefold and the successful marketing ratio reached 14.38%. In addition, the smart insurance expert system has been put into operation with a user utilisation rate of 57%, and an increase by 107% in the scale of the long-term regular premium year-on-year, having efficient access to 1,111,700 customers. **With respect to smart risk control**, the Company has invested in the scale system for fraud risk control, integrating dozens of dimensions such as customer equipment, environment, and counterparty, and applying more than 2,000 variables. With a capacity of risk decision analysis within 30 milliseconds and calculation of billions of data streams, the scale system achieved the sensitivity level of microprobability of loss. Moreover, the Company established a smart real-time credit card risk management system, the non-performing rate of credit card was controlled at 1.14%, and the overall risk of credit card assets was stable and controllable. **With respect to smart customer services**, the Company further applied smart data technology to upgrade the smart customer service robots. The Company continuously accelerated channeling of telephone manual services to mobile banking, thereby increasing the proportion of smart self-service to 70.70% during the reporting period, and customer satisfaction rate has remained above 99% for a long time while the cost of customer services was significantly lowered.

2. *The wholesale finance customer service system has been transforming itself into the Internet-based model at a faster pace*

Launching online traditional customer services for wholesale finance. A new open mobile application platform was built for the corporate customers of corporate mobile banking. The one-stop mobile customer service ecosystem has been taking shape through the improvement of corporate mobile banking and the innovation of scenario applications. As at the end of the reporting period, the number of Company's corporate mobile banking customers reached 580,000, representing a year-on-year growth of 44.42%. 12,033,700 transactions were recorded with a total amount of RMB786.096 billion in the reporting period. The corporate mobile payment was innovated through the introduction of "mobile cheques", which has extended into the enterprise service scenario and created a new ecosystem in mobile payment clearing business. As at the end of the reporting period, there were 1,032,800 mobile cheque users, with the total amount of payment transactions through mobile cheques reaching RMB785.316 billion.

Extending wholesale finance to industrial ecology. The Company developed an innovative financial institution service model that integrated online and offline services. It covers 12 businesses in 5 major categories including wealth management, third-party asset custody, financial market, cash management, asset sales, etc. During the reporting period, leveraging on Bills Manager (票據大管家) platform, a total amount of RMB44.4 billion was processed through online bills discounting. In addition, a total fund in the amount of RMB81.2 billion was released through the Bills Pledge Pool (票據質押池), with a remaining unsettled financing balance of RMB103.2 billion and with a zero non-performing loan ratio. As at the reporting period, the number of the Company's core customers with existing financial assets in supply chains and the upstream and downstream customers with existing assets were 585 and 7,317, respectively, and the balance of supply chain finance amounted to RMB207.065 billion. The "Zhao Ying Tong (招贏通)" APP 2.0 was put online, which covers different customer scenarios such as financial institution market research, marketing and products promotion. During the reporting period, there were 1,694 registered financial institution customers, 723 registered mutual fund institutional customers and 160 online financial institution depositors. The online business turnover reached RMB417.372 billion, and the online business replacement rate of the platform exceeded 80%.

Promoting "Smart Service" at middle and back office supporting wholesale finance. The Company leveraged on the big data from internal and external sources to build the data obtainment and risk assessment mechanism for customer pre-warning, thus realising the pre-warning on more than 50% of the customers with new non-performing loans, and achieving the average pre-warning time of more than 12 months for the customers with overdue loans. The Company also leveraged on the AI technology to generate the diagrams of corporate customers' connected relationship by exploiting various data including the basic information on business registration of customers, shareholding structure, legal issues, taxation, financing, public opinions, transactions, guarantees, etc., in order to enhance its risk identification capability effectively. In respect of operation support, the Company has completed the bank-wide deployment of the RPA (Robotic process automation) technology in the balance check of internal accounts, the filing of RMB accounts and the online reporting of foreign exchanges, reducing each business processing time by 95%, 85% and 65%, respectively. The Company utilised the RPA technology to achieve auto balance checking on the information of transactions and settlements of bonds in internal and external systems which has replaced all the manual processes and improved the business processing efficiency by 83%. This effectively prevented losses due to errors in manual balance checking.

3. *Transforming foundational Fintech capabilities towards Internet-based*

With respect to resource commitment, the Company raised the upper limit of Fintech innovation project funds to 1% of the previous year's audited operating income, and increased resources committed for construction of infrastructures, transformation and upgrading of service systems and establishment of ecological scenarios. **With respect to infrastructure construction,** the Company carried out the following initiatives: Firstly, we precipitated in the construction of cloud computing and distributed trading platform, so that the total number of X86 servers installed was 36.80% higher than that at the end of the previous year. Application cloud capacity increased such that the percentage of application uploading to cloud reached 26.38%, process capacity of distributed core account platform reached 32,000 per second, greatly enhancing the capability of cloud computing. Secondly, big data processing capacity continued to improve such that total capacity of data pool expanded to 3.6PB, data imported into the pool increased by 34% from the previous year, distributed storage capacity reached 41PB, daily average information processing volume of the big data platform reached 32.4 billion, providing stronger intelligence-based support for sales and marketing, risk management and customer service. Thirdly, we enhanced the construction of API (application programming interface) platform, and launched three types of API of identity certification, security and payment which support 25 applets, empowering the rapid innovation of businesses. Fourthly, the construction and application of Blockchain platform were pushed forward and 18 patents have been successfully applied. **With respect to agile IT development,** the dual-model IT research and development system was further promoted, more than 80 cross-service iteration models for 33 business areas have been made while the iteration development period has been reduced to 2 to 4 weeks. During the reporting period, 3,550 new applications were launched by the Company, up by 32% as compared with the corresponding period of the previous year. **With respect to talent structure,** the Company enriched the talent pool in the areas of IT and DT (data technology). We attracted talents and continued to establish a Fintech talent pool through measures such as Fintech training camp and paid visits to universities and colleges.

4. *Further enhancing comprehensive customer service by centering on "customer journey"*

During the reporting period, the Company put its emphasis on building the bank with the best customer experience, and by leveraging on the concept of "customer journey", the Company leveraged on Fintech and through "end-to-end" to develop a customer-oriented service system. **At the customer engagement level**, the Company continuously promoted a holistic experience in payment, credit service and card service process by focusing on customer experience, and achieved significant results in product innovation and satisfaction of customer needs. **At the customer support level**, on one hand, the Company accelerated optimisation of credit flow and system iteration on high-frequency business such as working capital loans, discounted bank acceptance bills, letters of credit, letter of guarantee, payments-on-behalf and international trade financing, so as to introduce systems upgrade, revamp and new system versions covering different aspects from product systems, document signature, system operation, underwriting requests, loan granting conditions, to automated invoices verification. These efforts serve to control risk exposure and elevate products and service competitiveness. On the other hand, the Company utilised Fintech to promote platform-based and intensive management of customers. With concentrated management of Gold Card and Sun-flower customers through direct banking, the accumulated value of customer asset under management has seen a new addition of RMB23.9 billion. Net number of Sun-flower customers increased by 27,000, thus initially realising "Light Operation" in retail business.

3.9 Changes in the External Environment and Corresponding Measures

3.9.1 Impacts of changes in operating environment and key business concerns

1. Overview of the macroeconomic and financial outlook in the first half of 2018

In the first half of 2018, the growth momentum slowed down against the backdrop of gradual recovery of global economy, demonstrating a pattern of "strong U.S. and weak Europe". The U.S. interest rate hike cycle continued to advance, the U.S. dollar appreciated, global liquidity tended to tighten, and trade frictions continued to heat up, dampening global economic growth. China's economic operation was generally stable, but due to the factors such as continued deleveraging and the continued escalation of Sino-US trade frictions, the aggregate demand declined marginally where investment, consumption, and export growth slowed down, and nominal GDP growth declined. The downward pressure on the economy increased. The overall level of inflation was moderate and industrial production maintained a high degree of prosperity with corporate profits continuing to improve. The industrial structure and economic quality were optimised, the consumption contribution rate increased steadily, and the emerging industries performed well.

In the first half of 2018, the Central Bank resolved to maintain its prudent and neutral monetary policy while exerting more efforts to meet the demands for effective financing in the real economy. The Central Bank also flexibly utilised various monetary policy tools such as targeted cuts of deposit reserve ratio and open market operation to maintain liquidity at a reasonable level. However, with the continuous advancement of the financial deleveraging policy, the contraction effect on credit gradually emerged, and the financial environment showed a distinctive characteristic of "loose monetary policy and tight credit". Affected by the new policies including New Regulation on Asset Management, commercial banks' inter-bank businesses and off-balance sheet assets shrank rapidly while it was difficult to fully meet the off-balance sheet financing needs due to credit facility, capital constraints, and credit default concerns, leading to the size of social financing reduced significantly, divergence in risk-free interest rate and credit interest rate, rising credit spread, credit risk bubbling up and continued corporate defaults.

In the first half of 2018, the domestic banking industry achieved sound and steady development, with a slower growth in scale but improved efficiency. The net assets of banking industry grew steadily, the asset and liability structure was optimised, and the overall asset quality was stabilised with certain level of internal diversification. Sino-U.S. trade friction may have a negative impact on the banking industry by hurting the manufacturing and exports of China, but the negative impact in the first half of the year was overall limited. The new round of opening up of the financial industry brought new development opportunities and challenges to the Chinese banking industry. Banks with comparative advantages in localisation, asset size, profitability, number of outlets, and financial technology may gain opportunities in future competition.

2. Net interest margin

In the first half of 2018, the net interest margin of the Company was 2.61%, representing an increase of 11 basis points year-on-year and as compared with the overall level of the previous year respectively. In the second quarter of 2018, the net interest margin was 2.61%, representing an increase of 10 basis points year-on-year, which was mainly due to the following reasons: firstly, the Central Bank reduced its deposit reserve ratio, the percentage of balances with the Central Bank to interest-earning assets decreased, secondly, continuous optimisation of asset structure, which made the proportion of customer loans to interest-earning assets continue to increase, and thirdly, risk pricing continued to improve. In the second quarter of 2018, the net interest margin decreased slightly by 1 basis point from the previous quarter. The main reason was that the market liquidity was relatively strong in the second quarter, and the market yields were obviously under great downward pressure.

Looking forward to the second half of the year, the Sino-U.S. trade war may bring certain uncertainties to the domestic economic operation. It is expected that the economic growth will slow down as compared with the first half of the year, which will impose pressure on the steady growth of credit assets and the increase in risk pricing. The Company will closely monitor the changes in the macroeconomic situation, monetary policies and regulatory policies. Based on the prejudgment on the situation and policies, we will continue to optimise the asset and liability structure in terms of duration, pricing, structural arrangement and risk control. It is expected that the annual net interest margin will be maintained at an improved level.

3. *Net non-interest income*

During the reporting period, the Company realised net non-interest income of RMB43.780 billion, representing a year-on-year increase of 16.46%, which accounted for 36.85% of the net operating income. In the second quarter of the year, the Company realised net non-interest income of RMB22.801 billion, representing an increase of 8.68% as compared with the first quarter, which accounted for 37.43% of the net operating income, representing an increase of 1.20 percentage points as compared with the first quarter. The increase in net non-interest income was mainly due to: firstly, the impact of implementing the new financial instruments standards, some of the items originally included in the interest income were reclassified to the net investment income under non-interest income; secondly, benefiting from the growth in wealth of residents, the income from wealth management businesses such as agency funds and agency trust schemes increased gradually; thirdly, in line with the development trend of consumer finance, income from credit card business achieved steady growth.

During the reporting period, confronting the tightened regulatory policies, transformation of asset management, and the situation of returning to the fundamentals of businesses, the Company proactively grasped the opportunities in the capital market at the beginning of the year and leveraged on the channel advantages to assist the wealth management business achieving recovery in growth. Meanwhile, driven by the increase of commission income of credit cards and instalment income from merchants, the Company recorded fee and commission income of RMB37.580 billion, representing a year-on-year increase of 7.24%. For key projects, the Company's fee and commission income from wealth management amounted to RMB15.765 billion, representing a year-on-year increase of 3.71% (of which: income from entrusted wealth management services amounted to RMB5.540 billion, down by 11.20% year-on-year, mainly due to the impact of the New Regulation on Asset Management and the implementation of value-added tax policy in asset management products. Income from agency distribution of funds amounted to RMB4.497 billion, up by 46.82% year-on-year, which was mainly due to the recovery in the demand for agency distribution of funds, and the sales of funds recording a substantial year-on-year increase during the reporting period thanks to the Company's advantages in customer groups, channels and services. Income from agency distribution of insurance policies amounted to RMB3.125 billion, down by 17.00% year-on-year, mainly due to the impact of insurance regulatory policies and the significant shrinkage of major single premium products sold in the bancassurance market. Income from agency distribution of trust schemes amounted to RMB2.555 billion, up by 24.82% year-on-year; income from bank card fees amounted to RMB8.078 billion, up by 24.95% year-on-year; income from settlement and clearing fees amounted to RMB5.771 billion, up by 6.57% year-on-year; custodian fee income amounted to RMB2.416 billion, down by 4.96% year-on-year, mainly because in the context of deleveraging and increasingly stringent regulations, the size of the custody assets of the whole industry and the overall custody fee of the market were both under pressure. In the long run, by improving the experience of customer services and optimising the structure of custody assets and system functions, the custodian income of the Company is expected to be stabilised.

Looking forward to the second half of the year, impacted by regulatory policies and market volatility, the pressure on the growth of the Company's net non-interest income will be further increased, as reflected in the following aspects: with the duly release of the New Regulation on Asset Management, the previous model of asset management business will be facing major adjustments, and the impact on wealth management, bills, investment banking and other businesses will be gradually increased; with the impact of the new insurance policy, the previous major single premium products sold in the bancassurance market will be restricted, and the agency sales of regular premium products will not be enough to make up for the gap caused by the decline in single premiums in the short run; and the continued weakening of the capital market will also affect the continued marketing of funds. In order to cope with the above pressure and maintain the advantages in non-interest business of the Company, the Company will adopt the following measures: firstly, the Company will consolidate its advantages in retail business, continue to increase its efforts in customer acquisition, continuously optimise the customer acquisition scenarios, focus on digital customer acquisition, and deepen the operation in key payment areas. By adhering to the concept of customer-centric and the mission of value creation for customers, the Company will avoid a single product orientation, and establish an intelligent system of products and services with the concept of asset allocation, so as to promote the sustainable growth of wealth management business. Secondly, the Company will closely grasp the business opportunities brought about by regulatory policies and changes in market conditions, strengthen active management, improve cross-selling mechanisms, promote business structure and customer structure optimisation, and comprehensively improve the management level of asset management, investment banking, transaction banking, asset custody, financial market and other businesses. Thirdly, the Company will abide to the compliance bottom line, strengthen its internal control and compliance management, regulate fee collections, and promote the Company's non-interest business to further return to its origin and standardise its operation.

4. *New policies on asset management business*

During the reporting period, the People's Bank of China ("PBOC"), the CBIRC, the CSRC and the State Administration of Foreign Exchange issued the Guidance on Regulating the Asset Management Business of Financial Institutions (關於規範金融機構資產管理業務的指導意見) (referred to as the "New Regulation on Asset Management" in this report). Subsequently, the People's Bank of China issued the Notice on Further Clarifying the Relevant Matters Concerning the Guidance on Regulating the Asset Management Business of Financial Institutions (關於進一步明確規範金融機構資產管理業務指導意見有關事項的通知) (hereinafter referred to as the "Notice on Implementation of the New Regulation on Asset Management"), and the CBIRC issued a consultation on the Administrative Measures on Wealth Management Business of Commercial Banks for Public Comments (Consultation Draft) (商業銀行理財業務監督管理辦法(徵求意見稿)) (hereinafter referred to as the "Consultation Draft of New Regulation on Wealth Management) to consult public opinions.

The Company highly recognised and firmly supported the issue of the New Regulation on Asset Management and its supporting documents. The Company believed that, the duly implementation of the New Regulation on Asset Management will, on one hand, regulate the development of asset management business, and systematically address the issues in asset management industry accumulated during the process of rapid development. The New Regulation on Asset Management will play an important role in fostering the asset management business of banks to gear back into their business origin, mitigating the risk of the asset management business of banks, and contributing to the real economy in a better way, and will be a milestone for the standardised development of the asset management business of banks across the industry. On the other hand, the asset management business of banks will gradually reduce the scale of non-qualified wealth management products during the transition period of the implementation of the New Regulation on Asset Management, cease to invest in non-qualified assets, and arrange for the disposal of stock assets that cannot be digested during the transition period. Meanwhile, the acceptance for net-value products will also take some time to cultivate, which will bring great challenges to the transformation, development and income growth of the asset management business of various banks. The implementation of the New Regulation on Asset Management will help guide financial institutions to properly handle the challenges faced in the transformation of asset management business, ensure a smooth transition of the asset management industry, and create a better monetary and financial environment for the real economy. Meanwhile, the CBIRC issued the Consultation Draft of New Regulation on Wealth Management, which was an important measure to implement the New Regulation on Asset Management, and was conducive for refining the regulatory requirements on asset management business of banks, eliminating market uncertainties, stabilising market expectations, and promoting a smooth transformation of asset management business of banks. It was also conducive for promoting the asset management business of banks to gear back into its origin, guiding wealth management funds to invest in multi-level capital markets, supporting the development of the real economy, and at the same time helping to protect the legal rights and interests of wealth management investors.

During the reporting period, the Company fully capitalised on its previous experience in promoting asset management business transformation, and increased investment in human resources, IT and other resources, so as to forge its core advantages in asset management business. Firstly, on the product side, the Company promoted the direct conversion of the existing net-value products that meet the new net asset value management requirements into compliant net-value products in accordance with the requirements of the New Regulation on Asset Management, with an emphasis on promoting the conversion of quasi-net-value products[3] into compliant net-value products so as to fully leverage on the Company's advantages on earlier transformation to net-value products and higher proportion of net-value products, and increase the issuance of net-value products. Secondly, on the asset side, according to the New Regulation on Asset Management, the Company formulated the transformation plan for its existing business. Meanwhile, the Company strictly regulated the non-standardised credit assets, continued to improve the construction of the integrated system of investment research, enhance the investment research capability in standardised credit assets such as bonds and stocks, thus the proportion of investment in standardised credit assets and equity assets such as bonds and stocks were further increased. As at the end of the reporting period, the proportion of investment in standardised credit assets and equity assets increased by 4 percentage points as compared with the end of the previous year. Thirdly, in terms of system construction, the Company continued to increase investment in IT resources for its asset management business, and has independently established four core system platforms including core business system, investment decision analysis system, project and risk management system and data mart, thus the systematic support for business development was realised and the efficiency of business operation was improved. Fourthly, in terms of organisational structure, the Company continued to improve the independent operational capability of asset management business and strengthened the risk isolation between the asset management business and the on-balance sheet business. During the reporting period, the Board of Directors of the Company considered and approved the proposal to establish an asset management subsidiary, and is currently steadily carrying out the application and preparation.

For details of the asset management business, please refer to the section 3.10.2 "Asset management business".

3 Quasi net-value products represent products launched by the Company during the reporting period that basically meet the new net-value product management requirements of the New Regulation on Asset Management. The Company's quasi net-value products can be transformed into net-value products that meet the requirements of the New Regulation on Asset Management following the independent custody transformation, rectification of maturity matching of underlying assets and investment concentration as well as adjustment of the valuation method of some underlying assets.

5. *The formation and disposal of non-performing assets*

As at the end of the reporting period, the non-performing loan ratio of the Company was 1.48%, representing a decrease of 0.19 percentage point as compared with the end of the previous year, while the proportion of special mention loans in total loans was 1.56%, down by 0.10 percentage point from the end of the previous year, and the proportion of overdue loans in total loans was 1.71%, down by 0.06 percentage point from the end of the previous year. The loan allowance ratio was 4.75%, up by 0.31 percentage point from the end of the previous year. The allowance coverage ratio of non-performing loans was 321.46%, representing an increase of 56.42 percentage points as compared with the end of the previous year. The credit cost ratio (annualised) was 1.74%, representing a decrease of 0.14 percentage point as compared with the end of the previous year. The risk exposure was generally controllable.

During the reporting period, both the amount and ratio of non-performing loan formation decreased. In general, the amount of new non-performing loan formed during the first half of the year was RMB15.917 billion, representing a decrease of RMB696 million or 4.19% as compared with the corresponding period of the previous year, and the non-performing loan formation ratio (annualised) was 0.92%, representing a decrease of 0.14 percentage point as compared with the corresponding period of the previous year. Analysing by industry, the amount and ratio of non-performing loans formation in the wholesale and retail, transportation, storage and postal services declined as compared with the corresponding period of the previous year; analysing by geographic area, the amount and ratio of non-performing loan formation in the Yangtze River Delta, Pearl River Delta and West Side of Taiwan Strait, North-eastern China and Western China declined as compared with the corresponding period of the previous year; analysing by customer base, the amount and ratio of non-performing loan formation in small and medium-sized enterprises also declined as compared with the corresponding period of the previous year.

During the reporting period, the Company used a number of methods to manage risk assets. During the reporting period, the Company disposed of non-performing loans amounting to RMB18.187 billion, of which, RMB8.499 billion was written off in a regular way, RMB6.164 billion was cleared and settled, RMB1.523 billion was securitised as non-performing assets, and RMB2.001 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

During the reporting period, the Company relied on its efficient and sophisticated operating mechanism of asset securitisation to continue to accelerate the process of securitisation of the non-performing assets. During the reporting period, the Company launched one securitisation project, for which non-performing assets with the principal value of RMB1.523 billion in aggregate were disposed of, and the nominal value of securities issued amounted to RMB280 million. The Company holds 5% of each tranche of such securities in accordance with regulatory requirements. The remaining securities were subscribed for by investors in the open market. The securitisation of the non-performing assets of the Company concluded with a number of achievements, i.e. establishment of a market-based issuing and pricing mechanism, realisation of real sale and bankruptcy ringfencing of the assets, transmission from asset holding to asset services, optimisation of the structure of the Company's assets and liabilities, improvement on asset liquidity and revenue structure.

In addition, since the reactivation of the pilot project of debt-to-equity conversion in 2016, in accordance with the State Council's "Guidelines for Marketisation of Debt-to-equity Conversion of Banks", the Company continued to proactively and steadily push forward the business relating to debt-to-equity conversion, reasonably screen customers, properly carry out feasibility analysis and prepare workable service plans.

6. *Asset quality in key areas*

In response to changes in external macroeconomic environment, the Company proactively strengthened the control of its risks associated with real estate industry, local government financing platforms, the industries from which our loans should be reduced and recovered and other key areas.

In respect of real estate credit business, under the current situation of the State's determination for deleveraging and risk prevention, as one of the key areas of risk prevention and control, regulation and control of the industry continued to deepen, and was increasingly coordinated. The ecological environment of the real estate industry was constantly changing, and the Company attached great importance to the control of asset quality and risk prevention in the real estate sector. The Company dynamically adjusted its internal credit policy according to the policies on adjustments to the real estate industry, regulatory requirements and industrial operating status, effectively changed the business strategy of the real estate industry in response to the guidance of national policy, and allocated and invested assets in the directions in line with future industrial trends by focusing on house leasing, real estate asset securitisation and real estate equity investment. Meanwhile, the Company strengthened quota management of real estate industry, comprehensively deepened the cooperation with strategic customers of the Head Office and branches, strictly controlled the proportion of financing in the cities with high real estate prices and high stocks at early stage, strictly control the financing for the development of commercial properties, real estate projects with high leverage and high financing cost, and continuously optimised the asset structure. As at the end of the reporting period, the risk exposure of our businesses with domestic real estate enterprises (calculated on the broad statistical calibre)[4] amounted to RMB430.443 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standard assets), representing a decrease of RMB920 million as compared with the beginning of the year. Included therein was the balance of loans to domestic real estate enterprises which amounted to RMB192.315 billion, representing an increase of RMB22.863 billion as compared with the beginning of year, and were mainly granted to the quality strategic customers while putting a strict curb on the grant of any incremental loans to those customers not in the strategic customer list. Such balance of loans accounted for 5.35% of the total loans and advances granted by the Company, down by 0.22 percentage point as compared with the beginning of the year. As at the end of the reporting period, the assets of the domestic real estate enterprises have maintained good quality, the non-performing loan ratio was 1.38%.

4 In 2018, the Company implemented the newly revised National Economic Industry Classification (GB/T 4754-2017) standard issued by the General Administration of Quality Supervision, Inspection and Quarantine and the National Standards Committee to classify the industries and adjust the comparable data with the same statistical calibre. The broad statistical calibre of risk associated businesses has been changed, and the comparable data has been adjusted with the same calibre.

In respect of local government financing platform business, the Company closely followed the State's policies to strengthen local government debts management, strengthened compliance management, conducted related business in legal and compliant manner, and prevented compliance risks and credit risks. The Company implemented quota management on full statistical calibres, further specified the requirements of total amount control and centralised regional management, and prioritised the allocation of its credit resources to local government financing platforms being operated under the market-based and commercial principles, having good cash flow and complying with the national policies on government purchasing (procurement) and PPP model to optimise its loan structure. In addition, the Company continued with its research on the change of debt policy of the central and local governments, acting actively in concert with the replacement of local government debts and quota management, so as to safeguard the creditor's rights of the Company. As at the end of the reporting period, the risk exposure of our businesses with local government financing platforms (calculated on the broad statistical calibre)[5] amounted to RMB299.129 billion (including businesses such as actual and contingent credit, bond investments, proprietary investment and fund investment of wealth management products), representing an increase of RMB12.732 billion as compared with the beginning of the year. Included therein was the balance of loans on balance sheet which amounted to RMB104.059 billion, representing an increase of RMB5.324 billion as compared with the end of the previous year, which accounted for 2.89% of the total loans and advances granted by the Company, down by 0.10 percentage point as compared with the end of the previous year. There was no non-performing asset for our businesses involving local government financing platforms.

For the 16 industries[6] that we have reduced or withdrawn from such as coal, iron and steel, shipbuilding, photovoltaic and coal chemicals, the Company raised its entry threshold for customers, focused on supporting leading enterprises in industries and regional quality enterprises closely related to people's livelihood, prioritised the financing needs related to energy conservation and environmental protection and technological upgrading, devoted to reducing and withdrawing from customers associated with significant risks and lower class overcapacity, especially for customers in the process of reducing production capacity, deleveraging, and those meeting the "zombie enterprise" standards. In addition, the Company implemented stringent quota management for industry, enhanced the monitoring of withdrawal of risk-bearing loans and optimised risk mitigation measures. As at the end of the reporting period, the financial exposure of the industries that we have reduced or withdrawn from (calculated on the full statistical calibre) amounted to RMB141.380 billion, representing a decrease of RMB10.365 billion as compared with the beginning of the year. The non-performing loan ratio was 10.42%, up by 0.33 percentage point as compared with the beginning of the year. The non-performing loan ratio of iron and steel, steel trade, basic chemical, engineering machinery, machine tool and shipbuilding increased as compared with the beginning of the year, the non-performing ratio of other 10 industries decreased as compared with the beginning of the year mainly due to the exposure of risk associated with certain large customers in the above-mentioned industries.

5 The broad statistical calibre of risk associated businesses has been changed, and the comparable data has been adjusted with the same calibre.

6 The 16 industries refer to coal, coal chemical, coal trade, iron and steel, steel trade, basic chemical, commonly used metal ore mining, nonferrous metal smelting and calendaring, shipbuilding, glass, water transport, textile and chemical fiber, photovoltaic, fertiliser, engineering machinery and machine tool.

7. *The proprietary funds invested in non-standardised credit assets*

During the reporting period, the Company further tightened risk control in the proprietary funds invested in non-standardised credit assets and emphasised compliance with the rules in respect of the fund investment, carefully evaluated the risks and made adequate allowances based on the nature of the invested basic assets in strict compliance with the regulatory requirements. In accordance with the principle of substance over form, the Company also incorporated the centralised credit management of customers and implemented risk classification according to the risk profile of basic assets in accordance with the management requirement of penetration principle. As at the end of the reporting period, the balance of the Company's proprietary funds invested in non-standardised credit assets amounted to RMB359.273 billion, representing a decrease of 35.20% as compared with the end of the previous year. The asset structure is as follows:

The balance of proprietary funds invested in non-standardised credit assets under the credit category amounted to RMB356.273 billion, representing a decrease of 35.39% as compared with the end of the previous year, in which RMB183.792 billion was for corporate creditor's beneficiary rights, down by 11.00% as compared with the end of the previous year; RMB50.930 billion was for individual creditor's beneficiary rights, down by 6.89% as compared with the end of the previous year; and RMB121.551 billion was for beneficiary rights to discounted bank acceptance bills and commercial acceptance bills, down by 58.12% as compared with the end of the previous year. The non-performing ratio of the proprietary funds invested in non-standardised credit assets under the credit category was 0.87%, up by 0.30 percentage point as compared with the end of the previous year, mainly due to the rapid decrease in the proprietary funds invested in non-standardised credit assets under the credit category.

The balance of proprietary funds invested in non-standardised debt assets under the non-credit category amounted to RMB3.000 billion, remaining the same as compared with the end of the previous year. The objects of such investments are creditor's beneficiary rights of banks and other financial institutions.

In future, the Company will continue to serve the real economy and give priority to satisfying tailored financing needs of quality enterprises for the purpose of business development. The Company will also implement the national macro-control policies and conduct prudent and careful management as the preconditions for its business operation. The Company will continue to maintain a relatively consistent policy with proprietary funds in terms of credit policies, customer onboarding, industrial investment direction, due diligence, risk assessment, post-investment management and other aspects.

8. *Capital management*

The Company continued to optimise its business structure and enhance capital management. During the reporting period, the Company satisfied the minimum capital requirements, the reserve capital requirements and the counter-cyclical capital requirements under the transitional arrangements of the CBIRC.

As at the end of the reporting period, the capital adequacy ratio of the Company under the advanced approach was 14.85%, down by 0.39 percentage point as compared with the end of the previous year; the capital adequacy ratio under the weighted approach was 11.97%, down by 0.19 percentage point as compared with the end of the previous year. The capital adequacy ratio under both approaches decreased as compared with the end of the previous year which is because, on one hand, the profit appropriation plan for 2017 was considered and passed at the Company's general meeting for 2017, announcing the distribution of cash dividend of approximately RMB21.185 billion which reduced net amount of the core Tier 1 capital adequacy accordingly; on the other hand, the Company continued to increase the loans granted to the strategic customers at the Head Office and branches, retail and other credit businesses, resulting in higher increase in risk-weighted assets than the increase in net capital under both approaches. If the impact of the addition of the floor requirements under the advanced approach and other measurement rules is taken into consideration, the capital adequacy ratio would drop to a greater extent under the advanced approach.

As at the end of the reporting period, the percentage of the Company's risk-weighted assets under the weighted approach to total assets was 66.45%; the percentage of risk-weighted assets under the advanced approach to total assets was 55.81%, lowered by 10.64 percentage points as compared to that under the weighted approach, indicating an effective saving in capital. The risk-adjusted return on capital (RAROC) before tax under the advanced approach was 32.02%, significantly higher than the cost of capital.

The Company adhered to the development strategies of marketisation, branding and internationalisation, and constantly promoted the innovation and development of assets securitisation business to provide extra capacity for capital saving. During the reporting period, the Company issued 2 phases of credit asset-backed securities, including one phase of non-performing asset and one phase of normal asset, respectively, with the aggregate issuance volume of RMB5.818 billion. As at the end of the reporting period, the Company totally issued 26 phases of credit asset-backed securities, with the aggregate issuance volume of RMB144.010 billion, leading in the industry in terms of types of assets and market share.

Meanwhile, the Company continued to enhance the concept of refined capital management, and continuously promoted the application of the risk-adjusted return on capital (RAROC), the economic value added (EVA) and other valuation indicators. The Company continued to implement the internal capital adequacy assessment procedures (ICAAP), kept a dynamic balance of supply and demand of capital, traced the progress of international capital regulatory reform, and continued to carry out global quantitative measurement of Basel III and quantitative measurement of systemically important parameters for banks.

3.9.2 Outlook and counter-measures for the second half of 2018

Looking forward to the second half of 2018, the global economy is expected to remain on the track of recovery, as the US economy maintains its strong growth and the European economic recovery is expected to continue. However, due to the trade war and political risks, the uncertainty in the economic growth will increase. China's economy, in general, will be growing in a smooth trend, with new growth drivers constantly upgraded. Meanwhile, it may face the challenges of overlapping internal and external contradictions and increasing risks. The risk of trade wars may keep bubbling up, escalating to the point where it may be the main contradiction in China's economic operation. Maintaining a stable and healthy economic development has become the government's primary policy objective. Although real estate regulation is expected to continue, real estate investment is still under pressure, but under the support of the active fiscal policy, the growth rate of infrastructure investment is expected to rebound, and the decelerating growth of investment will be released. The steady growth of household income will make consumption generally stable. The trade war will put pressure on exports. The marginal improvement of investment demand, coupled with the improvement of corporate earnings in the first half of the year and the decline of inventories will help to maintain a certain boom in industrial production in the second half of the year. The inflation may deteriorate due to the trade war and the rising crude oil prices. Against the background of limited space for further significant appreciation of the US dollar, overseas capital continuing to flow into China's financial markets, and foreign exchange settlements by enterprises remaining at a relatively high level, the pressure of RMB depreciation against the US dollar may gradually be released, while the volatility will intensify.

In the second half of the year, the Company will focus more on intensity and pace when it comes to "de-leveraging", and strive for the prevention and mitigation of financial risks while serving the real economy, so as to support economic growth to some extent. Under the policy objectives of "stabilising employment, stabilising finance, stabilising foreign trade, stabilising foreign investment, stabilising investment, and stabilising expectations", the fiscal policies will be more aggressive with expanding tax cuts and fees reduction, and the pace of expenditure will be accelerated; monetary policy is expected to be structurally relaxed, with the focus on maintaining a moderate scale of social financing and clearing the channels for monetary policy implementation. In order to facilitate the return of off-balance sheet assets of the commercial banks to the balance sheet and reduce systemic risks, the government may continue its adjustment to the deposit reserve ratio, and the liquidity in the financial market is expected to remain reasonably sufficient. However, subject to the restriction of the external environment, the Central Bank may raise interest rates in the open market to maintain exchange rate stability. In general, China's economic growth will be slowing down smoothly in the second half of the year, while the structural adjustment will be deepened, with the economic and financial risks generally controllable.

In such a complicated situation, the Company will maintain its strategic determination, return to its origin of customer service, fit in the rhythm of development, optimise its structure, with its focus placed on the improvement of quantity, quality and experience of its customers. Specifically, the strategy covers the following aspects: **Firstly**, the Company will continue to deepen the comprehensive cultivation of the wholesale customers; further adjust the customer structure by increasing the number of strategic customers representing the new economic drivers, and enhance the expertise of customer selection; take institutional customers as a group of specific strategic customers and steadily develop the institutional customer service business; fully exploit the platform value of strategic and institutional customers and explore the ecological operation model; improve comprehensive service for the financial institution customers and small-sized enterprise customers; **Secondly**, it will promote in full scale the digital transformation of retail banking; accelerate the construction of a service system with a complete customer base, complete product line and complete channel to provide our customers with better experience; stay MAU-oriented and strive for a leap in the retail business from an era of cards to an era of Apps. During this process, the Company will aggressively draw data flow through the expansion of internal and external service scenarios, operate and capitalise data traffic by improving App operating capacity, making it a primary way of connecting and serving customers. **Thirdly**, it will improve the institutional mechanism centering on customer experience; promote system reform and mechanism optimisation to a deeper level in terms of product design, data connectivity, scenario expansion, and traffic distribution, and accelerate ecological system construction and improvement of customer experience; steadily promote the construction of infrastructure with better performance as required by the Digital Bank, and drive business agility with technology agility; accelerate the construction of digital operation system to achieve intelligent operation. **Fourthly**, it will widely carry out its tasks of risk prevention and control and internal management. While constantly and resolutely implementing the policy of eradicating and suppressing high-risk customers, "highly polluting, highly energy-consuming and overcapacity-stricken" enterprises and "zombie enterprises", the Company will miss no opportunities in controlling the risks with customers with "high leverage", and carefully carry out credit limit management and the creation of a complete picture of customer risks, closely monitor the external sources of risks and its paths of conduction, so as to effectively prevent the cross financial risks. It will strengthen employee management, internal audit and compliance management in a stringent manner, so as to ensure stable and compliant operation.

3.10 Business operation

3.10.1 Retail finance

Business overview

During the reporting period, the profit of the retail finance business of the Company maintained its rapid growth, with the profit before tax amounting to RMB31.690 billion, representing an increase of 17.76% as compared with the corresponding period of the previous year. It accounted for 56.62% of the total profit before tax of the whole business lines of the Company. The net operating income from the retail finance amounted to RMB61.646 billion, representing an increase of 12.60% as compared with previous year, and accounting for 51.88% of the net operating income of the Company, among which, the net interest income from retail finance amounted to RMB37.555 billion, representing an increase of 7.96% as compared with the corresponding period of the previous year and accounting for 60.92% of the net operating income from retail finance, while the net non-interest income from retail finance amounted to RMB24.091 billion, representing an increase of 20.67% as compared with the corresponding period of the previous year and accounting for 39.08% of the net operating income from retail finance, and 55.03% of the net non-interest income of the Company. In the first half of 2018, the retail finance of the Company recorded a fee income of RMB8.024 billion from bank cards, representing an increase of 25.14% as compared with the corresponding period of the previous year; the fee and commission income from retail wealth management was RMB11.547 billion, accounting for 48.76% of the net fee and commission income from retail finance.

The Company has always prioritised the development of its retail finance business, solidified and enhanced its structural advantages and professional capabilities to better serve customers. In the first half of 2018, the Company continually consolidated its retail customer foundation through continuous optimisation of the management system, product system, service system, channel system and risk prevention system for its retail finance business, increased the application of Fintech, proactively promoted new development model for retail business, and fostered the best customer experience. The Company has maintained its stronger competitive edges in such core retail businesses as wealth management, private banking, credit cards, retail loans, consumer finance and e-banking.

In the first half of 2018, the credit card business of the Company received the "Most Favoured Credit Card by Multimillionaires" in Hurun Rich List for 14 consecutive times, and also won the "First Place in the C-BPI Ranking for the PRC Credit Card Industry in 2018 (2018年C-BPI中國信用卡行業品牌力第一名)" awarded by Chnbrand, a Chinese brand rating and brand advisory institution; its private banking business received the "Best Domestic Private Bank in China" awarded jointly by *Euromoney* and *The Asian Banker*; and the online lending "Flash Loan" of its retail loan business received the "Best Consumer Financial Products in the Pan Asia Pacific Region in 2018 (2018年度泛亞太區最佳消費者金融產品獎)" awarded by *The Asian Banker*.

Retail customers and total assets under management from retail customers

As at the end of the reporting period, the Company had 116.3261 million retail customers (including the customers of its debit cards and credit cards), representing an increase of 9.09% as compared with the end of the previous year, among which, the number of Sunflower-level and above customers (those with minimum daily average total assets of RMB500,000 for each month) reached 2,295,500, representing an increase of 7.94% as compared with the end of the previous year. The balance of total assets under management (AUM) from our retail customers amounted to RMB6,632.883 billion, representing an increase of 7.60% as compared with the end of the previous year, among which, the balance of total assets under management from the Sunflower-level and above customers amounted to RMB5,424.408 billion, representing an increase of 7.17% as compared with the end of the previous year, and accounting for 81.78% of the balance of total assets under management from retail customers of the Bank. During the reporting period, the Company proactively stabilised time deposits and fully tapped on demand deposits. As at the end of the period, the balance of deposits from retail customers amounted to RMB1,357.955 billion, representing an increase of 10.29% as compared with the end of the previous year, of which the percentage of demand deposits accounted for 72.01%. According to the data released by the PBOC, the Company ranked first among the joint stock banks in terms of the balance of retail deposits as at the end of the reporting period. As at the end of the reporting period, a total of 124,564,000 All-in-one Cards in aggregate have been issued by the Company for retail customers, up by 7.58% as compared with the end of the previous year.

In the first half of 2018, in an economic and financial environment where financial deleveraging and stringent regulation continued to intensify, the Company adhered to the development strategy of "Light-operation Bank", sought for high quality development, returned to the fundamentals of serving customers, upheld the development strategy of "mobile priority (移動優先)", increased its investment in the innovation and application of Fintech in "fostering best customer experience", and further consolidated the retail customer base and core competitive advantage by enhancing the retail customer service system featuring in whole customer groups, whole products and whole channels, thus ensuring a steady growth in the retail customer group and the assets under management (AUM).

Wealth management

In the first half of 2018, the Company recorded RMB4,865.635 billion in sales of personal wealth management products, representing an increase of 24.88% as compared with the corresponding period of the previous year; RMB489.837 billion in the agency distribution of listed open-ended funds (LOF), representing an increase of 52.17% as compared with the corresponding period of the previous year; RMB146.116 billion in agency distribution of trust schemes, representing an increase of 39.69% as compared with the corresponding period of the previous year; and RMB26.555 billion in premiums from agency distribution of insurance policies, representing a decrease of 41.51% as compared with the corresponding period of the previous year. In the first half of 2018, the Company recorded a fee and commission income from retail wealth management business of RMB11.547 billion, among which, income from agency distribution of funds amounted to RMB4.488 billion, income from agency distribution of insurance policies amounted to RMB3.123 billion, income from agency distribution of trust schemes amounted to RMB2.418 billion, and income from entrusted wealth management amounted to RMB1.470 billion. For the reasons for changes in fee and commission income from wealth management, please refer to the analysis of net non-interest income under section 3.9.1 of this report.

During the reporting period, on the basis of product design & development and refined management, the Company strove to establish itself as a bank with the best customer experience in the industry through subdividing customer bases, reconstructing the tiered wealth management service system in response to the changes in customers' demand for wealth management, while expanding the differentiated leading edge of the Company's wealth management business through upgrading frontline service expertise with "Human being + Intelligence" and strengthening its capability of selling complex products. As the leading smart investment advisory product in China, "Machine Gene Investment (摩羯智投)" has achieved a total sales volume of RMB11.625 billion, maintaining its outstanding performance with "low volatility and steady growth" during the reporting period, and effectively evading the risks in contrast to the poor performance of capital market. It has been ranked among the top 30% of all mutual funds in terms of cumulative income since its launch. While striving to secure stable investment performance, the Company has been continuously upgrading and iterating the related functions of "Machine Gene Investment (摩羯智投)", so as to further enhance the customer experience. In addition, the Company continued to improve its service efficiency and customer experience by such technological means as artificial intelligence, big data and cloud computing. During the reporting period, the Company introduced new technologies such as natural language processing and launched a consultancy service robot to provide human-machine dialogue services, employed the big data technology to launch wealth check services to help our customers examine their assets, which has further expanded its marketing channels and improved its sales efficiency. In the future, the Company will continue to closely monitor the development of artificial intelligence technology and the application of big data, so as to provide refined and personalised services for its customers, and drive the continuous improvement of customer experience and satisfaction in accordance with their preferences and interests.

Private banking

As at the end of the reporting period, the Company had 71,776 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 6.47% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB2,034.020 billion, representing an increase of 6.76% as compared with the end of the previous year; total assets per account amounted to RMB28.3384 million. As at the end of the reporting period, the Company has established a high-end customer service network consisting of 63 private banking centers and 66 wealth management centers in 63 domestic cities and 7 overseas cities.

Our private banking business is based on the operating philosophy of "It's our job to build your everlasting family fortune". In order to "foster a private bank with best customer experience (打造最佳客戶體驗私人銀行)", the Company has been committed to meet the various demands of high-net-value customers consisting of individuals, families and enterprises by offering professional, comprehensive and private financial services in investment, taxation, legal affairs, M&A, financing and clearing. During the first half of 2018, the Company initially completed the construction of a five-dimensional customer development system for its private banking business with initial effect. Our private banking business has been actively improving the customer experience and exploring the application of financial technology through process reconstruction, system renovation and optimisation of rules, while making meaningful attempts in accurate identification of customer needs, provision of professional financial solutions, the cultivation of professional skills of relationship managers, and the improvement of internal operational efficiency. It has been constantly expanding its professional systemised advantages, while actively rolling out services such as financing and investment banking match-up, aiming to build a comprehensive financial services platform for both domestic and overseas customers.

Credit cards

As at the end of the reporting period, the Company had issued an aggregate of 114.4395 million credit cards, with 74.6446 million active cards, representing an increase of 19.51% as compared with the end of the previous year, and there were 52.6886 million active credit-card users, representing an increase of 12.23% as compared with the end of the previous year. The Company continued to improve the efficiency of customer acquisition and management. The credit card transaction of the Company in the first six months of 2018 amounted to RMB1,819.226 billion, representing an increase of 41.23% as compared with the corresponding period of the previous year, and the average transaction of each active card per month amounted to RMB4,348.04. The balance of credit card loans was RMB512.091 billion, representing an increase of 4.24% as compared with the end of the previous year. The percentage of the revolving balances of credit cards was 20.12%. In the first six months of 2018, interest income from credit cards amounted to RMB21.596 billion, representing an increase of 14.14% as compared with the corresponding period of the previous year. Benefiting from the increase of credit card fees resulting from increased transaction volume, non-interest income from credit cards amounted to RMB9.788 billion, representing an increase of 44.47% as compared with the corresponding period of the previous year.

The introduction of the new cash loan policy at the end of 2017 has suppressed the space for certain small loan providers and P2P companies with poor risk management, which, in the long run, is conducive in clearing the market environment. However, as the risks arising from the rapid development of the cash loan industry in the early stage have been gradually exposed, it would pose certain challenges to the cash flow of some credit card customers. To cope with the above-mentioned changes in the market environment, the Company made an early start in establishing an early warning system with pre-lending, amid-lending and post-lending linkage, actively expanded the internal and external clearing and disposal channel resources, increased its efforts in the disposal of non-performing assets, and strictly controlled the scale of non-performing assets, so as to ensure the stability and controllability of the overall risk of its credit card assets. As at the end of the reporting period, the non-performing loan ratio of the Company's credit cards was 1.14%, representing a slight increase of 0.03 percentage point as compared with the end of the previous year.

During the reporting period, the Company actively explored and put into practice various financial technologies, including: upgrading the service capability of its mobile APP "CMB Life" and deepening the construction of its intelligent service platform with a "Financial Core and Life Extension". For further details, please refer to the section headed "Distribution Channels". The Company optimised its service modules, such as intelligent flow redirection, intelligent flow distribution, intelligent operation, and intelligent audit, to develop credit card customers intelligently and automatically, in different scenarios, and by means of virtualisation; it constantly strengthened channel construction, leveraging on its WeChat applets to explore potential traffic portal, and fully exploiting the potential of the channels with its characteristics taken into account. Our services have landed on the four smart speaker platforms, i.e. Baidu, JD, Tmall, and Xiaomi, in an attempt to explore the new service model featuring "Terminal + Cloud Service" on the Internet; we have also established a customer experience lab known as "V Lab", to understand the real needs of our customers, and inspire our product innovation; we constantly advanced our cooperation with the Internet enterprises in promoting our credit cards by launching a variety of co-branded credit cards, e.g. Hema Fresh (盒馬鮮生), Tmall Store (天貓營業廳), Today's Headline (今日頭條), etc.; we also actively explored the commercialisation system of the fan card products by launching Hello Kitty and Teddy collectible cards. We have expanded our consumer financial products and realised the optimisation and iteration of our "eLoan (e智貸)", and introduced new credit products relating to repayments and commodities; we expanded the regional scenarios for consumer finance, aiming to enhance our management expertise of diversified products.

Confronted with the competition of credit card products of other banks and quasi-credit cards launched by the Internet giants as well as challenges from third-party payment, the Company continued to explore the application of financial technology in our businesses, and align us with the leading Internet companies and Fintech companies, constantly expanding our differentiated competitive edges by establishing a comprehensive intelligent customer acquisition system, innovating consumer credit products, refining platform operation management, upgrading real-time risk management system, and launching the industry's first "Fast Service Bank" services. We also entered into cooperation with Internet giants aiming to achieve a win-win situation through complementary strengths.

Retail loans

In the first half of 2018, the Company proactively grasped the market opportunities, and strived to promote the balanced development in quality, efficiency and scale of retail loan business on the premise of effective control of risks associated with retail loans. As at the end of the reporting period, the total retail loans of the Company amounted to RMB1,849.158 billion, representing an increase of 4.81% as compared with the end of the previous year and accounting for 51.40% of the total loans and advances to customers, down by 1.96 percentage points as compared with the end of the previous year. Total amount of the Company's retail loans (excluding credit card loans) reached RMB1,337.124 billion, representing an increase of 5.03% as compared with the end of the previous year, accounting for 37.17% of total loans and advances to customers of the Company, representing a decrease of 1.34 percentage points as compared with the end of the previous year.

As to business development, in the first half of 2018, the Company developed its residential housing loan business in a steady manner in accordance with the requirements of the State policies and regulations and in support of the residents' reasonable needs for their own homes; we accelerated the development of micro finance loans in order to support the real economy, in particular, the development of inclusive finance; we strictly controlled the usage of consumption loans and mainly adopted the online resource-light customer acquisition model, so as to promote further optimisation of asset structure of retail loans and realise the healthy development of retail loans business. As at the end of the reporting period, the Company recorded a balance of residential housing loans of RMB866.051 billion, representing an increase of 4.88% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB332.857 billion (calculated on the Bank's statistical calibre), representing an increase of 7.04% as compared with the end of the previous year. The balance of consumption loans amounted to RMB97.931 billion, up by 7.18% as compared with the end of the previous year with its percentage of the increment in retail loans (excluding credit cards) down by 6.66 percentage points as compared with the end of the previous year. As at the end of the reporting period, the Company had 3,901,000 retail customers, representing an increase of 42.70% as compared with the end of the previous year, which was mainly attributable to the adoption of the online resource-light customer acquisition model which resulted in the rapid expansion of customer portfolios.

As to the quality of assets, the Company continued to improve the quality of retail loan assets by optimising its policies for retail loans and enhancing its risk management capabilities. As at the end of the reporting period, balance of non-performing retail loans amounted to RMB14.357 billion, down by 9.51% as compared with the end of the previous year, and its non-performing loan ratio was 0.78%, down by 0.12 percentage point as compared with the end of the previous year. Among which, the non-performing ratio of micro-finance loans was 1.31%, down by 0.47 percentage point as compared with the end of the previous year which was mainly due to an acceleration in the disposal of the non-performing micro finance loans; and the non-performing ratio of consumption loans was 1.04%, down by 0.12 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 82.24% of the balance of the new non-performing retail loans of the Company in the first half of 2018, with a mortgage and pledge rate of 50.21%. Given that a vast majority of such new non-performing retail loans were fully secured by collaterals, the final loss was not substantial.

As to risk management, the Company was committed to establishing a full-chain risk management system covering all processes i.e. pre-lending, amid-lending and post-lending, and promoted the application of Fintech in risk management. As to data, the Company further tapped on its internal and external data and constantly expanded the scope of information collection and application. As to platforms, the Company has established an all-process decision-making platform to improve its decision-making efficiency. As to models, the Company continued to optimise various risk models and the selected customer groups. At the same time, the Company proactively strengthened team management, enhanced the professional level of its teams and the capability of quantitative analysis, and applied technological innovation in each aspect of risk management, so as to establish a standardised, systematic, data-based and modelised comprehensive risk management system.

In response to the risk of "joint debts", the Company continued to enhance its capabilities to prevent multiple credit granting and credit fraud. In respect of data, the Company integrated its internal and external data sources to picture, verify and restore the real balance sheet status of the customers in a multi-dimensional manner, so as to form a unified view of risks associated with its customers and enhance its risk identification capability. In respect of the selection of customer groups, the Company selected to acquire mainly the quality young customers with a stable job and income by actively taking into consideration the application scenarios of various real consumptions such as parking space purchase, decoration, education, etc.. In the meantime, the Company has built an information sharing platform, periodically analysed the development trend of joint-debt customers in the industry and made preparations in advance.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB24.283 billion, accounting for 43.38% of profit before tax for the business lines of the Company. The net operating income from wholesale finance of the Company was RMB57.494 billion, representing an increase of 9.76% as compared with the previous year, and accounting for 48.39% of the net operating income of the Company, including net interest income from wholesale finance of RMB38.760 billion, representing an increase of 11.93% as compared with the corresponding period of the previous year, and accounting for 67.42% of the net operating income of wholesale finance; net non-interest income of wholesale finance amounted to RMB18.734 billion, representing an increase of 5.53% as compared with the corresponding period of the previous year and accounting for 32.58% of the net operating income of wholesale finance, and 42.79% of net non-interest income of the Company.

In the first half of 2018, the Company was once again awarded the "Best Transaction Bank of China" comprehensive award by "*Asia Money*", "*The Asian Banker*" and "*The Asset*". We were also awarded a number of international awards such as "China's Best Cash Management (Joint-stock) Bank", the "Best Online Banking Products, Projects and Business (U-Bank X)", the "Best Renminbi Bank", "China's Best Trade Finance Solution" and "China's Best Liquidity Management Solution" awards issued by the above three international institutions.

Wholesale customers

Though its efforts in recent years, the Company has fully implemented the centralised operation of strategic customers, and preliminarily established the corporate customer service system featuring hierarchical management, professional level and focused operation in respect of institutional customers, financial institution customers and small-sized enterprise customers, which has laid a solid foundation for the development of the Company's various businesses.

With regards to its basic customers, the customer base of the Company continued to expand rapidly. As at the end of the reporting period, the total number of corporate depositors was 1,718,000, up by 9.20% as compared with the end of the previous year. The number of newly acquired corporate depositors of the Company in the year was 210,700, contributing daily average deposits of RMB72.460 billion. Both the number of newly opened accounts and the deposit contribution recorded a new high. **With regards to its strategic customers,** the Company further deepened the operation of its strategic customers under the Head Office by extending its products and services to the industrial chain and ecosphere of core enterprises of its strategic customers, providing them with a comprehensive service solution of full value chains and thus realising the deep operation of those customers. As at the end of the reporting period, the number of the strategic customers under the Head Office of the Company was 235, increasing by 69 as compared with the end of the previous year, the balance of daily average proprietary deposits amounted to RMB536.605 billion, increasing by 14.55% as compared with the beginning of the year, and the balance of general loans amounted to RMB427.210 billion, increasing by 21.15% as compared with the beginning of the previous year. For the strategic customers at the branch level, the Company implemented the centralised operation of strategic customers through professional operation and service upgrading. As at the end of the reporting period, the Company had 8,010 branch-level strategic customers. **With regards to its small-sized enterprise customers,** the Company continued to advance the construction of a tiered operation service system for small-sized enterprise customers while focusing on key customer groups and building diversified customer acquisition channels. We offered financing products for small-sized enterprise customers based on their differentiated financing needs, relentlessly promoted our credit service for small-sized enterprise customers to help them grow steadily. As at the end of the reporting period, the Company had 1,606,900 small-sized enterprise customers, representing an increase of 10.46% as compared with the beginning of the year. **With regards to its institutional customers,** the Company, by deepening the "Head Office-to-Head Office" strategic cooperation with the national ministries and commissions, continuously innovating cooperation models and focusing on financial, social security, public resource transactions, provident fund customer groups, fully exploited the low cost "liquid funds" and "incremental funds" of its customers while making remarkable efforts in developing the high-value scenarios and strengthening linkage with its retail business. As at the end of the reporting period, the Company had 22,700 institutional customers, with an average daily deposit balance of RMB742.852 billion, representing an increase of RMB46.418 billion as compared with the beginning of the year. **With regards to its financial institution customers,** the Company, by establishing a financial institution customer service system featuring "centralised operation, tiered operation and intensive management" and subdividing them into two types, namely, strategic customers and basic customers, fully exploited the value of financial institution customers and effectively prevented and controlled risks. As at the end of the reporting period, the Company had 5,243 domestic financial institution customers. **With regards to its offshore customers,** the Company was committed to catering for the needs of the multinational enterprises "going global" and "brought in", building a service system with tiered and classified operations, and subdividing the offshore customers into strategic customers, value customers and basic customers, holding the bottom line of compliance and fully exploiting the potential of our customers. As at the end of the reporting period, the Company had a total of 20,000 offshore customers.

Corporate loans

As at the end of the reporting period, total corporate loans of the Company amounted to RMB1,529.481 billion, representing an increase of 7.08% as compared with the end of the previous year and accounting for 42.51% of total loans and advances to customers. Among them, the balance of the medium- to long-term loans to domestic enterprises amounted to RMB626.367 billion, accounting for 44.48% of the total loans to domestic enterprises, and representing an increase of 0.20 percentage point as compared with the end of the previous year. The non-performing loan ratio of our corporate loans was 2.54%, a decrease of 0.22 percentage point as compared with the end of the previous year. In the first half of 2018, the floating range of weighted average interest rates of newly granted corporate loans in RMB was 7.61%. As at the end of the reporting period, the weighted average default probability of the exposure of the domestic non-defaulting corporate customers was 1.07%, a decrease of 0.04 percentage point from the end of the previous year.

Since the underlying data is subject to adjustment or elimination as a result of change in classification of certain enterprises after they have grown larger in scale at the beginning of the year, the calibre of our large, medium and small-sized enterprises business at the beginning of the year was adjusted as compared to the end of the previous year. As at the end of the reporting period, the balance of the Company's loans granted to domestic large-sized enterprises amounted to RMB1,165.305 billion, representing an increase of 10.65% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 82.76% of our total loans granted to domestic enterprises, up by 2.89 percentage points as compared with the beginning of the year with a non-performing loan ratio of 2.22%, down by 0.03 percentage point as compared with the beginning of the year; the balance of the Company's loans granted to domestic medium-sized enterprises amounted to RMB135.952 billion, representing a decrease of 6.55% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 9.65% of our total loans granted to domestic enterprises, down by 1.38 percentage points as compared with the beginning of the year with a non-performing loan ratio of 6.70%, down by 0.87 percentage point as compared with the beginning of the year; and the balance of the loans granted to domestic small-sized enterprises amounted to RMB106.893 billion, representing a decrease of 10.88% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 7.59% of our total loans granted to domestic enterprises, down by 1.51 percentage points as compared with the beginning of the year. The non-performing loan ratio was 3.13%, down by 0.65 percentage point as compared with the beginning of the year. The floating range of the weighted average interest rate of the Company's loans newly granted to small-sized enterprises was 17.28% for the year.

During the reporting period, the Company further optimised the industry structure of corporate loans, giving priority to industries undergoing structural upgrading, traditionally competitive industries, strategic emerging industries, modern service industries and green industries, and flexibly adjusted loans to real estate, local government financing vehicles and other industries in response to the changes in external operating environment. As at the end of the reporting period, the balance of credit loans to strategic emerging industries was RMB85.378 billion, representing an increase of RMB7.057 billion as compared with the end of the previous year, and accounting for 5.58% of the total corporate loans of the Company; and the balance of green credit loans was RMB160.581 billion, representing an increase of RMB3.478 billion as compared with the end of the previous year and accounting for 10.50% of the total corporate loans of the Company. For further details of loans extended to the sectors which are subject to the strict regulation of the State, such as the real estate industry and the local governments' financing vehicles, please refer to section 3.9.1 of this report.

"Qian Ying Zhan Yi (千鷹展翼)" is a strategic brand of the Company to serve the emerging small and medium-sized innovative technology enterprises. The Company continued to explore for target customers through the name list marketing model. During the reporting period, the Company focused on the list of two categories of enterprises: "high-tech" and "capital market", and continued to further expand the customer base under "Qian Ying Zhan Yi (千鷹展翼)". Meanwhile, the Company proactively initiated the innovation of investment and loan linking business, and worked closely with external investment institutions, so as to provide diversified investment and loan linking services to enterprises registered under "Qian Ying Zhan Yi (千鷹展翼)". As at the end of the reporting period, the Company had a total of 22,340 registered customers under "Qian Ying Zhan Yi (千鷹展翼)", representing an increase of 319 registered customers on the basis of customer base adjustment at the beginning of the year. The balance of daily average deposits was RMB108.729 billion, and the balance of loans was RMB26.853 billion with a non-performing loan ratio of 1.87%.

The main purpose of the Company's syndicated loan business is to enhance inter-bank cooperation and information sharing and spread the risks associated with large-amount loans. As at the end of the reporting period, the balance of syndicated loans amounted to RMB163.207 billion, up by 12.79% as compared with the end of the previous year.

Discounted bills

During the reporting period, the Company's bill business, by leveraging on its financial technology advantages and system advantages, focused on its customers' needs and comprehensively upgraded its asset-organising capability. Firstly, our product innovation efforts have produced remarkable results. Leveraging on the Bills Manager platform, the Company launched the "Online Discounting" product, with which our customers can "get discounted at one click" even at home, solving the discounting problems that have been troubling the small and medium-sized enterprises. Secondly, the advantages of system reform began to take effect. The Company took the lead in realising the integrated operation of its bills business, and accelerated the process optimisation, with which the customer experience was further improved. During the reporting period, the Company's bills direct discounting business amounted to RMB455.034 billion, representing a year-on-year increase of 6.10%, ranking first in the market in terms of business volume (data from the China Banking Association). As at the end of the reporting period, the bill discounting balance of the Company amounted to RMB218.923 billion, representing an increase of 92.58% from the end of the previous year.

Corporate customer deposits

During the reporting period, the Company focused on the hierarchical and intensive operation of corporate customer bases, refocused on its business origin, and centred on the two competitive product lines of transaction banking and investment banking to serve its customers and enhanced the overall contribution and loyalty of its customers, thereby realising a steady growth in corporate deposits. As at the end of the reporting period, the balance of corporate customer deposits amounted to RMB2,721.541 billion, representing an increase of 2.36% as compared with the end of the previous year; the daily average balance amounted to RMB2,718.321 billion, representing an increase of 4.55% as compared with the previous year; the demand deposits accounted for 56.20% of the balance of the daily average deposits from our corporate customers. During the reporting period, the average cost ratio of deposits from corporate customers was 1.67%, up by 0.16 percentage point as compared with the previous year.

Transaction banking business and offshore banking business

With respect to its cash management business, the Company proactively developed its basic settlement services focusing on payments and provided various types of customers with all-inclusive, multi-model and integrated cash management services, thereby making substantial contribution to the acquisition and retention of base customers, acquisition of low cost corporate settlement related deposits, and cross-sales of other wholesale and retail products. As of the end of the reporting period, the Company had a total of 1,554,100 customers using its cash management service, representing an increase of 11.33% as compared with the end of the previous year. Thanks to its continuous efforts to consolidate the "C+ Cash Settlement Solution" brand, the Company recorded 128,500 newly opened accounts and 371,200 newly issued "All-in-one Cards for Company (公司一卡通)", bringing the total number of opened accounts to more than 2 million. The amount of transactions through mobile cheques amounted to RMB785.316 billion, representing an increase of 136.21% as compared with the corresponding period of the previous year. While the basic cash management business experienced a healthy growth, the Company continued to advance the optimisation, innovation and promotion of Innovative Settlement Deposits, Virtual Cash Pool, Multi-level Cash Pool, Global Cash Management (GCM) and other products. The Company extended its services to the all-process value chain of enterprises by upgrading the cross-bank cash management system to the cash management cloud platform and with the provision of capital management service as the starting point, carried out in-depth cooperation with leading enterprises, cross-border enterprises, fiscal public units and others. As at the end of the reporting period, the Group offered its cash management services to 1,831 groups, the number of member enterprises under management reached 43,200, and the transaction amount exceeded RMB6 trillion in the first half of the year.

With respect to its supply chain finance, on the background of "Internet +", the Company applied various Fintech technologies, explored for the business model focusing on core enterprises, and enhanced the operation of quality supply chain customers based on the industrial supply chain comprehensive services integrated with the business ideology of "financing + wisdom pooling + Fintech application". During the reporting period, the number of the Company's core customers with existing financial assets in supply chains and the upstream and downstream customers with existing assets were 585 and 7,317, respectively. The average of those core customers' existing assets placed with the Company amounted to RMB101 million, representing an increase of 75.04% as compared with the corresponding period of the previous year. As at the end of the reporting period, the balance of supply chain finance amounted to RMB207.065 billion, representing an increase of 11.75% as compared with the end of the previous year.

In terms of trade finance, the Company continued to put into practice the organisation and operation philosophy of "light" and "quality" assets, and focused on serving the customers with high credit ratings such as the strategic customers, reducing overall financing risk costs and capital costs. We further extended the application of our domestic factoring business, and innovated the intra-bank syndicates, re-factoring, and joint factoring models. During the reporting period, our domestic factoring business recorded a business volume of RMB134.068 billion, representing a year-on-year increase of 70.73%. In order to better serve the real economy, the Company actively promoted the on- and off-balance sheet financing for our strategic customers' international trade, and launched a number of new products and services aiming to maintain smooth extension of financing for onshore international trade in a situation of two-way fluctuation in the RMB exchange rate and unstable trading environment. As at the end of the reporting period, the on- and off-balance sheet financing for international trade amounted to USD9.166 billion, representing a year-on-year increase of 2.29%.

With respect to its cross-border finance, the Company fully leveraged on the comprehensive service system covering "local and foreign currencies, domestic and international trade, offshore and onshore banking, investment banking and commercial banking (本外幣、境內外、離在岸、投商行)", optimised the basic settlement processes of foreign exchanges, and upgraded the cross-border financial intelligence platform, so as to improve service efficiency. As at the end of the reporting period, the onshore international settlements of the Company amounted to USD95.240 billion. Our cross-border payment business snatched a market share of 2.53%, ranking third among the national joint-stock commercial banks according to the data released by the State Administration of Foreign Exchange. The foreign exchange settlements amounted to USD68.721 billion, representing an increase of 7.03% as compared with the corresponding period of the previous year, and took up a market share of 3.73%, ranking second among the national joint-stock commercial banks according to the statistics of the State Administration of Foreign Exchange. The Company focused on expanding offshore bond issuance, offshore IPO, offshore syndicated loan and other businesses, shifting from the operation of one single customer to the operation of customer groups in the industry. As at the end of the reporting period, the cross-border finance amounted to nearly RMB10 billion.

With respect to its offshore businesses, the Company enhanced the operation of its customers, increased the overall contribution of its strategic customers and net-value customers, and deepened cooperation with its key customers by offering the comprehensive service solutions such as settlements and financing. As at the end of the reporting period, the balance of deposits from offshore customers of the Company amounted to USD16.513 billion. The balance of loans granted to offshore customers amounted to USD12.261 billion. The international settlements amounted to USD146.110 billion. The asset quality remained satisfactory with a non-performing loan ratio of 0.17%.

Investment banking business

During the reporting period, under the internal and external complicated environments, the Company proactively enhanced its capabilities in the sales and operation of assets and explored for a new asset operation model. Thanks to the implementation of a number of the projects with good reputation in the industry, the Company realised a year-on-year increase of 5.04% in the non-interest income from the investment banking business.

With respect to its bonds underwriting business, the Company deepened the operation of its strategic customers under the Head Office and at the branch level, strengthened the management of relationship with its bond investors, optimised and adjusted the customer group structure, and launched a series of innovative products, including a successful lead-underwriting of the first ultra short-term financial bonds for "The Belt and Road" initiative, the first bills backed with off-balance-sheet assets for the projects receivables of state-owned enterprises and the first financial bonds for foreign-owned consumption finance companies and other products. During the reporting period, the bonds with the Company as the lead underwriter amounted to RMB187.176 billion, ranking sixth in the debt financing instrument issuance market of non-financial enterprises, up by one place as compared with the corresponding period of the previous year, and ranking third among the lead underwriters of banks in the non-policy financial bonds market (as per the ranking by WIND public data).

With respect to its M&A financing business, the Company endeavoured to enhance its capabilities in the sales of assets and the arrangement of M&A syndicates, resulting in a substantial increase in both the number and amount of the syndicate projects led by the Company. Meanwhile, the Company proactively enriched the M&A financial advisory and, in response to the changes in the capital market, promoted the transformation and upgrading of the M&A finance business from "financing" to "wisdom pooling" through the six major service models, thus enhancing the Company's traditional advantages in the cross-border M&A field. During the reporting period, the Company posted RMB58.565 billion in its M&A finance business.

With respect to its structural financing business, under the environment of stringent regulation, the Company changed itself as situations changed, focused on key customer groups, continued to foster and improve its capabilities in asset redirection and market transactions, and enhanced and widened the construction of capital channels. At the same time, the Company built a two-way platform for project integration and capital transfer, fostered the friend circle and ecosystem for asset sales, explored business opportunities through product innovation and sought for growth in the adverse situation. In the first half of the year, the structural financing business amounted to RMB11.973 billion. In addition, the total amount in market deal matching exceeded RMB40.0 billion, nearly doubling the amount for the corresponding period of the previous year.

With respect to its equity capital market business, the Company paid special attention to and participated in the investment and financing business of the quality enterprises engaging in technological innovation and consumption upgrade, and leveraged on the differentiated services to improve customer experience, deepen customer relationship and improved the overall operation efficiency of its customers. During the reporting period, the equity capital market business of the Company amounted to RMB7.049 billion.

Financial institution business

With respect to its interbank asset and liability business, the Company continued to deepen the operation of financial institution customers, optimised its interbank deposit structure and supported its liquidity management of the whole Bank. As of the end of the reporting period, the balance of interbank deposits of the Company amounted to RMB466.234 billion, representing an increase of 10.68% as compared with the end of the previous year. Among them, the total amount of interbank demand deposits in the areas of fund clearing, settlement and depository service reported a balance of RMB321.138 billion, accounting for 68.88%. The Bank maintained a leading position in terms of scale and percentage of demand deposits among the small and medium-sized banks in China. The deposit structure was further optimised. **With respect to its depository service**, the Company's security and future margin depository service was in stable operation, with new third-party depository services extended to 101 securities companies and 9,491,900 new customers secured at the end of the reporting period. In addition, the Company entered into cooperation with 86 securities companies on margin trading and short selling business, securing 365,200 new customers at the end of the reporting period. Also, the Company entered into cooperation with 49 securities companies on stock options business, securing 15,900 customers at the end of the reporting period. The Company also entered into cooperation with 111 securities companies on Bank-futures transfer, securing 108,700 customers at the end of the reporting period. **With respect to interbank clearing**, as at the end of the reporting period, the number of the cross-border RMB accounts opened by banks and other financial institutions with the Company accumulated to 232, ranking first among all small- and medium-sized banks in China (according to the data released by the PBOC). There were 135 customers which participated indirectly in the RMB Cross-border Interbank Payment System (CIPS), ranking first among all small- and medium-sized banks in China and second in the industry (according to the data released by the CIPS). **With respect to the businesses on our "Zhao Ying Tong (招赢通)" Interbank Online Service Platform**, as at the end of the reporting period, the number of financial institutions registered on our "Zhao Ying Tong (招赢通)" platform of the Company reached 1,694 and, during the reporting period, the online business volume amounted to RMB417.372 billion, and the online trading replacement ratio of the platform exceeded 80%. **With respect to discounted bill transfer business,** the discounted bills transferred to other banks or financial institutions amounted to RMB502.635 billion, with a year-on-year drop of 75.16% due to the regulatory policies during the reporting period. Business in central bank bill rediscounting amounted to RMB46.482 billion, with a year-on-year growth of 9.29%. The volume of both discounted bill transfer and bill rediscounting continued to stay ahead in the industry.

Asset management business

During the reporting period, the Company recorded RMB7.14 trillion in sales of wealth management products, representing a decrease of 4.42% as compared with the corresponding period of the previous year. As at the end of the reporting period, the balance of the Company's wealth management products (excluding structured deposits)[7] amounted to RMB1.80 trillion, representing a decrease of 4.00% as compared with the end of the previous year calculated at the same statistical calibre. According to the information of the CBIRC, as at the end of the reporting period, the Company's wealth management products and off-balance sheet wealth management products ranked second among the commercial banks in terms of total fund values.

During the reporting period, the wealth management business of the Company scored a number of achievements in terms of business transformation, asset allocation, risk management, entrusted investment management and products transformation.

Firstly, structure of asset allocation was steadily adjusted. During the reporting period, aiming to raise the return-on-risk ratio of asset allocation, the Company increased its investment in research resources and improved investment capabilities of standardised financial assets. With respect to bonds assets, the Company griped the investment opportunities brought about by the rebound due to market adjustment by enhancing its investment strategies with research on the market and a timely adjustment to its investment strategies and structure. As at the end of the reporting period, the Company's wealth management funds invested in the bond market totalled RMB1,086.013 billion, and its proportion of all wealth management assets recorded an increase of 4 percentage points as compared with the end of the previous year. With respect to credit assets, the Company grasped the trend of asset standardisation and gradually rolled out its asset securitisation investment, while making non-standardised credit investments within the quota limit in strict compliance with the regulatory guidance and actively contributing to the real economy. As at the end of the reporting period, the total balance of wealth management funds invested with the non-standardised credit assets amounted to RMB182.784 billion. During the reporting period, the quality of the non-standardised credit assets of the Company remained stable due to the implementation of stringent asset entry criteria and risk management measures. With respect to equity assets, focusing on the strategic customers of the Company and the industrial leading companies, "Tou Rong Tong" business for listed companies was steadily carried out, and leveraging on the strict business entry standards and strict risk screening and post-investment management measures, risk level was generally controllable. Our investment business in the secondary stock trading market, by working with the top investment firms in the market, also reported a steady growth in business volume and return, and improvement in investment management.

Secondly, our comprehensive risk management capabilities improved continuously. During the reporting period, the Company on one hand strove to improve its risk management expertise on asset management, and kept on consolidating its post-investment management of credit risks, while closely monitoring the market risks. On the other hand, efforts were also made to strengthen the Company's liquidity management capacity on asset management business, leveraging centralised operation and system replacement to reduce operation risks. The Company also actively carried on regulatory requirements and prevention of business legal compliance risk while uplifting its risk management capabilities in every aspect and establishing a sound risk management system in line with the asset management transformation.

7 The balance of wealth management products (excluding structured deposits) is the sum of customers' principal in the on- and off-balance sheet wealth management products under management by the Company and the changes in net value of net-value products as at the end of the reporting period.

Thirdly, continuous efforts were made to strengthen the Company's entrusted investment management. The Company adhered to the principle of "independent investment first, entrusted investment second" in expanding its bond entrusted investment business. During the reporting period, in response to the changes in the financial regulatory policies and the adjustment in the bond market, the Company, on the one hand, urged its partners to take measures in advance, lower risk preference, prevent and control concentration risk, on the basis of continuously consolidating the entrusted investment risk management with partner management and penetrating management of underlying assets at the core, so as to guarantee a steady and sound development of the entrusted investment business. As at the end of the reporting period, the leverage ratio of the Company's entrusted bonds investment was 124.90%, with the risks generally remaining manageable. On the other hand, the Company adjusted the proportion of entrusted investment and strengthened cooperation with the carefully selected institutions, based on their performance in terms of return on and risk in investment to improve the quality and efficiency of the entrusted investment.

Fourthly, the Company continued to promote the transformation of its products. During the reporting period, in compliance with the regulatory guidance, the Company, on the one hand, steadily reduced the products incompliant with the New Regulation on Asset Management, such as guaranteed wealth management products and expected return products, while initiating a procedure highlighting that management functions regarding structured deposits will be transferred to the department which is responsible for managing on-balance sheet items; on the other hand, the Company promoted the direct transformation of existing net-value products that meet the requirements of the New Regulation on Asset Management into compliant net-value products, and focus on promoting the transformation of existing quasi net-value products[8] to compliant net-value products after rectifications, so as to fully leverage on the experience and customer advantages secured by the Company in early implementing the transformation of net-value products to facilitate the smooth transformation of asset management business.

For the analysis of the new policy on asset management business, please refer to the section 3.9.1 of this report.

Asset custody business

During the reporting period, the asset custody business of the Company grew steadily. As at the end of the reporting period, the balance of assets under custody of the Company was RMB11.92 trillion, and continued to rank second in the domestic custody industry (data from China Banking Association). During the reporting period, the Company realised a custodian fee income of RMB2.416 billion.

During the reporting period, the Company independently developed the "Wealth Management Custodian Expert System" and "ABS Custodian System" adapted to the new policy on asset management, increased its efforts to marketing mutual fund under custody, and solidifying the market position of the Company in the domestic custody industry. At the same time, with the continuous optimisation of functions of the custodian system and business processes, the self-developed core system for custody business supports more custody offerings, comprehensive functions, extensive derivatives, and stable operation of system. During the reporting period, the Company's "Risk Management System for Custodian Big Data Platform" was awarded the first prize in the "Golden Idea" program initiated by CBIRC. Meanwhile, the Company's professional value-added services and leading technology won acclaim in the industry, receiving several awards in respect of custody business from domestic and overseas financial media such as "Custodian Bank of the Year in China" and "Best Fund Custodian Bank".

8 Quasi net-value products represent products launched by the Company during the reporting period that basically meet the new net-value product management requirements of the New Regulation on Asset Management. The Company's quasi net-value products can be transformed into net-value products that meet the requirements of the New Regulation on Asset Management following the independent custody transformation, rectification of maturity matching of underlying assets and investment concentration as well as adjustment of the valuation method of some underlying assets.

Financial markets business

During the reporting period, affected by the market environment, the bond yields decreased substantially; the exchange rate fluctuation in the foreign exchange market was remarkable, as the customers' foreign exchange settlement amount increased. By adjusting the position-holding structure, improving the liquidity of investment portfolio, optimising business structure, constantly enhancing risk management measures, the Company proactively hedged the market volatility.

With respect to RMB bond investment, the Company appropriately extended the duration of portfolio based on market trend and improved the liquidity of investment portfolio by increasing holdings of government bonds and policy financial bonds. The Company also intensified the analysis of and judgment on the credit bond industry and bond portfolio, and moderately increased the investment in high grade bonds. With respect to foreign currency bond investments, the Company adopted a prudent investment strategy by controlling its investment pace and moderately reducing the duration of its investments portfolio to avoid the risk of rising interest rates. With the investment grade bonds in high priority when investing in credit bonds, the Company actively participated in spread transactions of credit bonds, range trading operation and derivatives business in secondary market.

With respect to customer transaction business, the Company further improved its "Zhao Yin Safe Haven" service system and vigorously pushed forward the "green channel" marketing strategy by giving priority to strategic customers at the Head Office and at branch level. As an effort to serve the customers' appealing for diversified scenarios, the Company innovated and optimised its products. By strengthening the cooperation between the Head Office and its branches, the Company encouraged the distinguishing operation of the branches. At the same time, leveraging on the Fintech, the Company continuously reinforced the system development and optimised customer experience. During the reporting period, the trading volume of customer transactions of the Company amounted to USD162.759 billion, representing an increase of 30.54% as compared with the corresponding period of the previous year. Specifically, the derivative transaction volume of institutional customer was USD83.017 billion, representing an increase of 100.19% as compared with the corresponding period of the previous year; the customer transaction intermediary business income amounted to RMB1.135 billion.

During the reporting period, the trading volume of RMB exchange rate swaps of the Company reached USD397.310 billion, representing an increase of 11.55% as compared with the corresponding period of the previous year; the trading volume of RMB-denominated options (including proprietary trading and trading on behalf of customers) reached USD81.797 billion, representing an increase of 31.46% as compared with the corresponding period of the previous year. During the reporting period, the trading volume of RMB options of the Company continued to rank first in the whole interbank market (data from the China Foreign Exchange Trade System), the trading volume of RMB interest rate swap business ranked first in the whole market (data from Shanghai Clearing House). Meanwhile, in the first half of the year, the Company ranked first among all interbank gold market makers in terms of overall ranking (data from the Shanghai Gold Exchange).

3.10.3 Distribution channels

The Company provides products and services via multiple distribution channels. Our distribution channels mainly consist of physical distribution channels and e-banking channels.

Physical distribution channels

The efficiently operated distribution network of the Company is primarily located in the major economic centres of China such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and certain large- and medium-sized cities in other regions. As at the end of the reporting period, the Company had 137 branches, 1,693 sub-branches, one dedicated branch-level operation center (credit card center), one representative office, 3,076 self-service centers, 10,656 self-service machines (including 1,437 automatic teller machines and 9,219 deposit-taking and cash withdrawal machines) and 12,094 visual counters, two subsidiaries, namely CMB Financial Leasing and China Merchants Fund, and one joint venture, namely CIGNA & CMB Life Insurance in more than 130 cities of Mainland China. The Company also has a number of subsidiaries including Wing Lung Bank and CMB International Capital, and a branch in Hong Kong; a branch and a representative office in New York, the United States; a branch and a representative office in London, the UK; a branch in Singapore; a branch in Luxembourg; a representative office in Taipei and a branch in Sydney, Australia.

E-banking channels

The Company values highly on the development, improvement and integration of e-banking channels, which serve to effectively relieve pressure on physical outlets of the Company. As at the end of the reporting period, the Company's replacement rate of comprehensive service counter through the retail electronic channel was 98.24%; the rate of rerouting customers from the service counters to visual counters was 87.64%; and the Company's replacement rate of transaction settlement through the whole-sale electronic channel was 91.63%.

Major retail e-banking channels

CMB APP

The personal mobile banking business of the Company maintained a rapid growth during the reporting period with a more active mobile banking user population, and had amassed 2.069 billion logins to its mobile banking APP, making it the most dynamic e-channel of the Company. As at the end of the reporting period, the number of CMB APP users in aggregate was 65,280,000, with 43,675,400 annual active users and 32,922,700 monthly active users, and an average monthly login of 11.90 per user, and closer bond was forged between CMB APP and its users. Meanwhile, the CMB APP transaction volume has been increasing rapidly, with 636 million APP transactions and a total transaction amount of RMB11.74 trillion during the reporting period, up by 40.71% and 44.40% respectively, as compared with the corresponding period of the previous year. Among all these transactions, the number of wealth management transactions originated by 3,113,600 wealth management customers using CMB APPs accounted for 75.48% of the Bank's total number of wealth management transactions, and a total wealth management sales value reached RMB3.00 trillion, representing an increase of 49.75% as compared with the corresponding period of the previous year, and comprised 55.29% of the Bank's total wealth management sales.

CMB Life APP for Credit Card

During the reporting period, the Company continued to focus on upgrading mobile service capabilities with a customer-oriented vision, CMB Life APP as the media and technology as impetus. By deepening the construction of a smart service platform featuring "financial core, life outreach", the Company is committed to providing the "Best Customer Experience". As at the end of the reporting period, the total number of CMB Life APP users was 56,764,500, of which non-credit card users accounted for 17.94%. During the reporting period, the maximum number of daily active users of CMB Life APP reached 6,514,900, the number of monthly active users was 30,461,700, among which young customers accounted for over 70%. In terms of the number and online activity of customers, CMB Life APP continued to outperform other credit card APPs in the banking industry. At the same time, the Company actively explored the mobile value output model with high-contribution and high-efficiency to facilitate customer acquisition and achieved breakthrough in operations. During the reporting period, the total number of credit card users of CMB Life APP reached 1,728,100, and consumer financial transactions successfully completed through CMB Life APP accounted for nearly 50% of total consumer financial transactions, demonstrating further recognition of the strategic position of CMB Life APP.

Smart WeChat Customer Service

The Company launched the "China Merchants Bank" WeChat Official Account which integrates product functions with current hot issues to facilitate marketing. Product content is enhanced in different facets to increase the brand's popularity among young customer groups so as to help CMB establish itself as an innovative and energetic brand. As at the end of the reporting period, the "China Merchants Bank" WeChat Official Account had accumulated 13,108,600 followers.

As at the end of the reporting period, the Company gained a total of 115 million fans through third-party credit card channels (mainly inclusive of WeChat, Alipay service window and official QQ account). The Company is committed to setting up a smart service system, promoting a new mode of AI technology-driven smart services ranging from data distribution decision to profound human-computer collaboration, achieving a full-channel, full-customer and full-service coverage from telephone to online APP to smart home devices and others through the deployment of leading voiceprint recognition system, audio frequency big data analysis platform, intelligent service robots, smart speaker service admission so as to improve the integrated online service experience.

Direct banking

The direct banking service provided by the Company provides instant, comprehensive, prompt and professional services to customers by way of telephone, audio, online and video to meet their needs.

During the reporting period, the Company constantly improved the service capability and customer experience for its direct banking. As a result, the online interactive services accounted for 70.70%; the manual telephone access ratio reached 98.00%; the percentage of manual telephone responses within 20 seconds reached 94.73%; and the satisfaction ratio of its telephone customer service reached 99.72%. Our visual counters received an average of 2,546,000 incoming calls per month, showing high replacement effect of in-branch non-cash transactions.

During the reporting period, the Company continued to facilitate the maintenance of gold card and Sunflower customer base for its direct banking, serving 1,920,000 gold card and Sunflower customers, with the cost of customer maintenance effectively reduced. The Company also actively supported the quality micro-finance customers, with 29,000 micro-finance loans renewed, totalling RMB8.206 billion, with a retention rate of 81.33%.

Major wholesale e-banking channels

Online Corporate Banking

During the reporting period, the Company focused on enhancing customer experience and initiated "online banking service refreshment" program distinguished by various services including "user experience reshaping", "AI intelligence" and "channel integration" following the launch of U-bank X, an innovative online corporate banking service. As at the end of the reporting period, the number of online corporate banking customers of the Company had reached 1,535,000, among which the number of yearly active customers was 1,205,000 and the number of monthly active customers was 757,100. During the reporting period, the total number of online corporate banking transactions of the Company reached 173,390,200 and total value of transactions amounted to RMB59.04 trillion.

Corporate Mobile Banking APP

During the reporting period, the Company vigorously pushed on with the establishment of corporate mobile banking App platform and innovation of scenario application, centring on the new mobile collection and payment experience, small-sized enterprise cloud services, embedded industrial internet and others to accomplish efficient customer management and increase data traffic. As at the end of the reporting period, the number of the Company's corporate mobile banking users reached 580,000, representing an increase of 44.42% as compared with the end of the previous year; the number of transactions was 12.0337 million and the amount of transactions reached RMB786.096 billion during the reporting period.

3.10.4 IT and R&D

The Company takes Fintech as a "nuclear power" for transformation. By implementing Fintech infrastructure planning, enhancing IT infrastructure capabilities, impelling the transformation of Fintech infrastructure, the Company is striving to establish itself as a bank with the best customer experience. At the same time, the Company proactively propels "industry - university - science" partnership with Stanford University, Tsinghua University, Chinese Academy of Science and Technology and Shanghai Jiaotong University to intensify research and innovation application in the cutting-edge Fintech.

During the reporting period, with its financial service innovation fuelled by technology, the Company continued to invest in the platform construction and user experience, completed 3,272 projects, representing a year-on-year increase of 30%, and launched 3,550 applications, representing a year-on-year increase of 32%. With respect to development of internet application, the Company formed a financial service ecosystem with some typical scenarios such as public transportation, parking, education, health-care and community, comprehensively exporting various functions including big data, OCR (optical character recognition), face-recognition payment, mobile QuickPass, "All-in-one Net" payment, "Ju He" payment and utility payment as its basic capabilities. With respect to storage capacity, the Company initially built a hybrid cloud structure to complete large-scale and rapid delivery of computing storage resources. At the end of the reporting period, the total number of X86 servers that the Company maintained increased by 36.80% as compared with the end of the previous year. With a distributed trading platform based on the X86 structure, the Company has the peak processing capacity of 32,000 transactions per second on the overall core accounting platform. With respect to intelligent insights, the Company's intelligence services have been fully rolled out. By introducing more artificial intelligence technologies, the Company is now able to provide multi-service scenarios consisting of wealth management, intelligent customer service, KG (Knowledge Graph) construction, intelligent marketing and risk control to enhance the user experience. With respect to lean and agile development, the Company used technology agility to drive business agility and promoted construction of lean R&D system and dual-mode capability improvement, so as to enhance the Company's prompt response to users' needs and its ability to iterate and improve services on a continuous basis. With respect to overseas support, the Company has invested in overseas business platform of Hong Kong Branch, overseas private banking service platform of CMB International Capital and overseas SWIFT message management platform to support the development of its overseas business. With respect to security and stability, the Company formulated a set of real-time, intelligent and comprehensive protection measures to ensure the security of the system and information through the establishment of a complete operation and maintenance system. Leveraging advantages in respect of the network security hacking and defence, sensitive data protection and users' abnormal behavior identification, the Company has continuously improved its security management and control capabilities.

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 Overseas[9] 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, further strengthened risk compliance and internal basis management, constantly improved the innovation of its product and service systems. As a result, all its businesses achieved healthy development. During the reporting period, our Hong Kong Branch realised an operating income of HK$1.686 billion and a profit before tax of HK$1.341 billion.

New York Branch

Established in 2008, the Company's New York Branch represents the first Chinese-funded bank approved in the U.S. since the US Foreign Bank Supervision Enhancement Act in 1991. The New York Branch is committed to establishing a cross-border financial platform characterised by coordination between China and the U.S., so as to offer diversified and all-round banking services for the companies and high-net-value private banking customers in China and the U.S..

During the reporting period, our New York Branch overcame the operational difficulties caused by the changes in Sino-US relations and the "trade friction", and adhered to the principle of "taking compliance as a priority and maintaining steady operation". It stabilised Sino-US cross-border business with its featured products such as "cross-border M&A", "accepting guarantees from domestic enterprise as security for loans granted to an overseas entity" and "transaction banking". It expanded local business with "structured financing" products and enhanced non-interest businesses with "financial market", "private banking", "investment banking advisory" and "asset securitisation" products, which enabled it to achieve a steady growth in business and profits. During the reporting period, our New York Branch realised an operating income of USD71,256,100 and a profit before tax of USD30,212,900.

9 Overseas refers to countries and regions other than Mainland China.

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 an 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.

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.

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.

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".

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.

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.

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.

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 test[11] 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

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.

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.

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

IV 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.

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).

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.

V 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	–	**25,219,845,601**	**100.00**
	(1) Ordinary shares in RMB (A Shares)	20,628,944,429	81.80	–	**20,628,944,429**	**81.80**
	(2) Foreign shares listed domestically	–	–	–	–	–
	(3) Foreign shares listed overseas (H Shares)	4,590,901,172	18.20	–	**4,590,901,172**	**18.20**
	(4) Others	–	–	–	–	–
3.	**Total shares**	25,219,845,601	100.00	–	**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.

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 (%)	Type of shares	Changes in the reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
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	–	–	–

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.

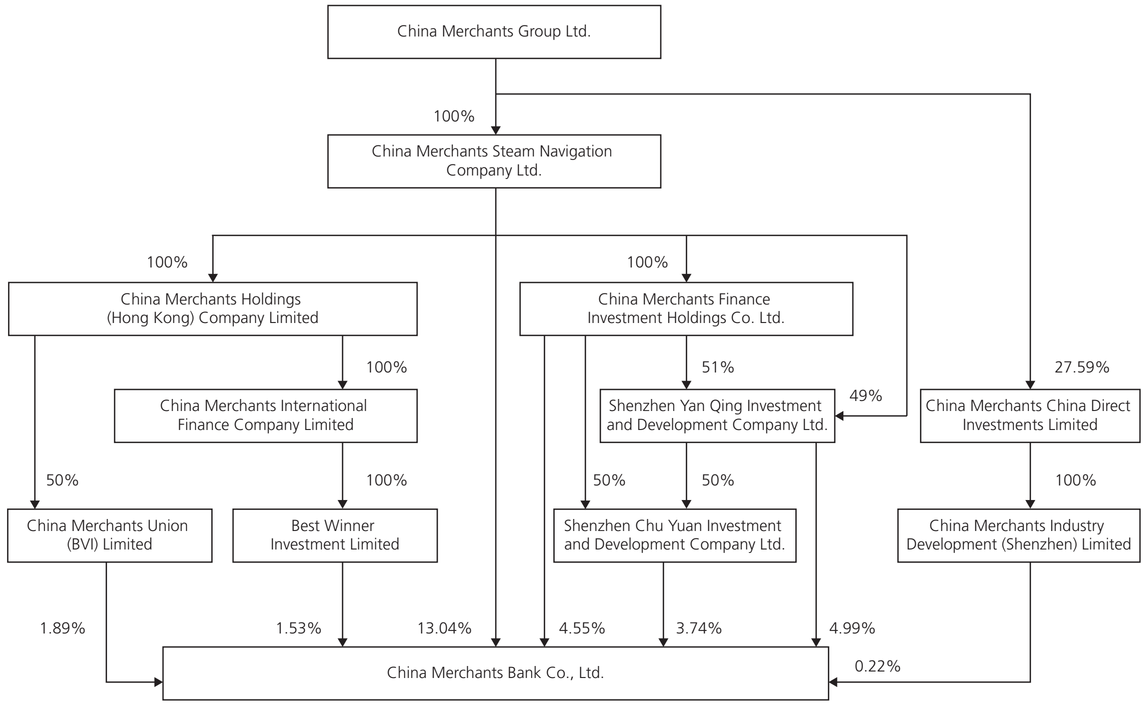
5.3 Information on substantial shareholders

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:



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.

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 for 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.

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

V 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

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.

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.

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

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	–	–

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.

VI 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 Non-Executive Director	2014.8-2019.6 2014.7-2019.6	–	–
Fu Gangfeng	Male	1966.12	Vice Chairman Non-Executive Director	2018.7-2019.6 2010.8-2019.6	–	–
Tian Huiyu	Male	1965.12	Executive Director President and Chief Executive Officer	2013.8-2019.6 2013.9-2019.6	–	110,000
Sun Yueying	Female	1958.6	Non-Executive Director	2001.4-2019.6	–	–
Li Hao	Male	1959.3	Executive Director, First Executive Vice President and Chief Financial Officer	2007.6-2019.6 (note 1)	–	100,000
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 Wanqing	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 Secretary of Board of Directors	2015.1-2019.6 2016.11-2019.6	–	80,000
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 Former Non-Executive Director	2015.11-2018.1 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.

6.3 Changes of information of Directors and Supervisors

1. Mr. Fu Gangfeng is an executive director and chairman of the Board of China Merchants Port Holdings Company Limited and ceases to act concurrently as a vice chairman of China Merchants Shekou Industrial Zone Holdings Co., Ltd..

2. Mr. Hong Xiaoyuan is the director of the Executive Committee of the China Merchants Financial Group/Platform.

3. Ms. Su Min is the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform.

4. Mr. Zhang Jian is the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform and ceases to act concurrently as a director of China Merchants Insurance Holdings Co., Ltd.（招商局保險控股有限公司）.

5. Wang Daxiong is the executive director of COSCO SHIPPING Development Co., Ltd..

6. Leung Kam Chung, Antony ceases to be the member of the Board of Directors of Athenex Inc..

6.4 The main positions held by Directors and Supervisors in the shareholders' companies

Name	Name of Company	Title	Term of office
Li Jianhong	China Merchants Group Ltd.	Chairman	From July 2014 up to now
Fu Gangfeng	China Merchants Group Ltd.	Director and General Manager	From February 2018 up to now
Sun Yueying	China COSCO Shipping Corporation Limited	Chief Accountant	From January 2016 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Assistant General Manager	From September 2011 up to now
Su Min	China Merchants Finance Holdings Co., Limited	General Manager	From September 2015 up to now
Zhang Jian	China Merchants Group Ltd.	General Manager of Finance Department	From September 2015 up to now
Wang Daxiong	COSCO Shipping Holdings Co., Limited	Chairman	From May 2016 up to now
Fu Junyuan	China Communications Construction Co., Ltd.	Executive Director & Chief Financial Officer	From September 2006 up to now
Wen Jianguo	Hebei Port Group Co., Ltd.	Director & Chief Accountant	From July 2009 up to now
Wu Heng	SAIC Motor Corporation Limited	Deputy General Manager of Finance Department	From May 2015 up to now

6.5 Interests and short positions of Directors, Supervisors and chief executives under Hong Kong laws and regulations

As at the end of the reporting period, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO in Hong Kong), which are required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of total issued ordinary shares (%)
Tian Huiyu	Director	A Share	Long position	Beneficial Owner	110,000	0.00053	0.00044
Li Hao	Director	A Share	Long position	Beneficial Owner	100,000	0.00048	0.00040
Liu Yuan	Supervisor	A Share	Long position	Beneficial Owner	90,000	0.00044	0.00036
Jin Qingjun	Supervisor	A Share	Long position	Beneficial Owner	65,800	0.00032	0.00026

6.6 Information about employees

As at the end of the reporting period, the Company had 71,765 employees (including dispatched employees). The classification of our employees by profession is: 29,418 employees in retail finance, 15,474 employees in corporate finance, 13,569 employees in operation and management, 7,266 employees in general management, 3,726 employees in risk management, 1,810 employees in research and development, and 502 employees in administrative and logistical support. The classification of our employees by educational background is: 13,173 employees with master's degree and above, 50,344 employees with bachelor's degree, 7,247 employees with junior college degree, and 1,001 employees with technical secondary school degree or below.

6.7 Branches and representative offices

The following table sets forth the branches and representative offices as at the end of the reporting period:

Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,527	2,481,625
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,082	498,255
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	96	4,541	224,528
	Shanghai Pilot Free Trade Zone Branch	6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	43	18,779
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	79	2,784	161,235
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	77	2,552	150,479
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	30	1,117	62,815
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	35	1,242	104,307
	Wuxi Branch	No. 6-107, 6-108 Jinrong One Street, Binhu District, Wuxi City	214001	18	700	35,960
	Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	12	498	32,586
	Nantong Branch	111 Gongnong Road, Nantong	226007	14	512	23,529
Bohai Rim	Beijing Representative Office	26/F, Building 3, No.1 Yuetan South Street, Xicheng District, Beijing	100045	1	8	4
	Beijing Branch	156 Fuxingmen Nei Dajie, Xicheng District, Beijing	100031	101	4,649	302,657
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	48	1,517	46,958
	Tianjin Branch	255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300201	43	1,701	84,783
	Jinan Branch	7 Gongqingtuan Road, Jinan	250012	58	1,766	72,214
	Yantai Branch	133 Yingchun Street, Laishan District, Yantai	264003	18	516	13,808
	Shijiazhuang Branch	172 Zhonghua South Street, Shijiazhuang	050000	16	420	11,732
	Tangshan Branch	45 Beixin West Road, Lubei District, Tangshan	063000	7	227	3,763

Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510623	78	2,675	124,578
	Shenzhen Branch	2016 Shennan Boulevard, Futian District, Shenzhen	518001	112	5,161	362,288
	Fuzhou Branch	316 Jiangbin Middle Avenue, Fuzhou	350014	34	1,133	57,703
	Xiamen Branch	No. 6 Complex Building, Hongtai Industrial Park, 309 Hudong Road, Siming District, Xiamen	361012	32	915	51,544
	Quanzhou Branch	Huangxing Building, No. 301, the middle section of Fengze Street, Quanzhou	362000	18	473	18,313
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523000	29	864	38,157
	Foshan Branch	12 Denghu East Road, Guicheng Street, Nanhai District, Foshan	528200	33	869	40,843
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	58	1,654	48,182
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	40	1,296	43,481
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150010	38	1,037	45,038
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	29	690	26,436
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	104	2,528	125,241
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330008	54	1,451	72,137
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	54	1,380	44,245
	Hefei Branch	169 Funan Road, Hefei	230001	43	1,237	47,160
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	41	1,233	57,672
	Taiyuan Branch	No. 265, S. Middle Ring Street, Xiaodian District, Taiyuan City	030012	32	858	30,863
	Haikou Branch	Complex Building C, Haian Yihao, 1 Shimao North Road, Haikou	570125	10	275	11,180

Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin South Road, Wuhou District, Chengdu	610000	52	1,554	52,692
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	28	854	28,250
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710075	63	1,826	60,904
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	47	1,651	70,842
	Urumchi Branch	2 Huanghe Road, Urumchi	830006	16	733	24,786
	Kunming Branch	1 Chongren Street Wuhua District, Kunming	650021	46	1,300	55,079
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010098	20	604	22,524
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	21	486	21,871
	Guiyang Branch	284 Zhonghua North Road, Yunyan District,Guiyang	550001	19	446	17,284
	Yinchuan Branch	138 Beijing Middle Road, Jinfeng District, Yinchuan	750001	15	373	13,858
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	11	256	11,822
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	230	115,233
	USA Representative Office	535 Madison Avenue, 23rd Floor, New York, U.S.A	10022	1	1	18
	New York Branch	535 Madison Avenue, 23rd Floor, New York, U.S.A	10022	1	123	75,378
	Singapore Branch	1 Raffles Place, Tower 2, #32-61, Singapore	048616	1	52	7,411
	London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	1	3
	Taipei Representative Office	333, Section 1, Keelung Road, Xinyi District, Taipei	–	1	2	4
	Luxembourg Branch	20 Boulevard Royal, L-2449 Luxembourg	L-2449	1	41	5,273
	London Branch	18/F, 20 Fenchurch Street, London, UK	–	1	33	4,350
	Sydney Branch	L39, GPT, 1 Farrer Place, Sydney NSW	–	1	29	870
Other assignments	–	–	–	–	39	–
Total	–	–	–	1,842	71,765	6,163,530

VII Corporate Governance

7.1 Overview of corporate governance

During the reporting period, the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the special committees under the Board of Directors and the Board of Supervisors of the Company functioned in an efficient manner, secured prudence and compliance with the Company's operation, and ensured sustainable and healthy growth of the Company. During the reporting period, the Company held 1 shareholders' general meeting, 9 meetings of the Board of Directors, including 2 on-site meeting and 7 meetings voted by correspondence, at which 43 proposals were considered and approved and 10 special reports were delivered; 13 meetings of the special committees under the Board of Directors, including 3 meetings of Strategic Committee, 2 meetings of Nomination Committee, 3 meetings of Risk and Capital Management Committee, 4 meetings of Audit Committee and 1 meeting of Related Party Transactions Control Committee, at which 47 issues were studied and considered and 8 special reports were delivered; 5 meetings of Supervisory Committee, at which 24 proposals were considered and approved and 6 special reports were delivered; 2 meetings of the special committees under the Board of Supervisors, including 1 meeting of the Nomination Committee and 1 meeting of the Supervisory Committee, at which 4 issues were studied and considered.

Having conducted thorough self-inspection, the Company was not aware of any non-compliance with its corporate governance practice during the reporting period with the requirements set out in CSRC's regulatory documents governing the corporate governance of listed companies.

7.2 Information about the general meeting

During the reporting period, the Company convened 1 shareholders' general meeting, being the 2017 Annual General Meeting held in Shenzhen on 27 June 2018. The notice, convening, holding and voting procedures of such meeting were in compliance with the relevant requirements of the PRC Company Law, the Articles of Association of China Merchants Bank Co., Ltd. and the Hong Kong Listing Rules. For details of the relevant resolutions considered at the meeting, please refer to disclosure documents including the 2017 Annual General Meeting document, the Annual General Meeting Circular and the announcements on resolutions published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7.3 Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the period ended 30 June 2018.

The Company has also established guidelines for the relevant employees' securities transactions, which are no less exacting than the Model Code. The Company is not aware of any non-compliance with the aforesaid guidelines by employees.

7.4 Internal control

During the reporting period, according to the unified deployment of the China Banking and Insurance Regulatory Commission, the Company has conscientiously organized and made further efforts to rectify the market disorders in the banking industry throughout the Bank, fully carried out self-examination and self-correction by focusing on the major issues of rectification work proposed by the China Banking and Insurance Regulatory Commission, and implemented comprehensive rectification work in respect of system improvement, culture promotion activities, system construction, processes optimisation, business training, supervision and inspection, etc., continued to strengthen compliance on internal control and risk management, returning to the origins of the business of serving the real economy. Faced with the new normal fueled by strict regulations and severe punishment, the Company further strengthened the compliance education and case warning trainings aiming for its employees where they are guided to firmly establish a sense of awe and a philosophy of compliance toward regulations and the system and hazards throughout the Bank so that a good habit of obeying laws and rules can be cultivated; continued to conduct investigations on employees' abnormal behaviors and case risk, identifying and eliminating all kinds of potential risks in a timely manner; proactively maintained a record of employee's non-compliance conduct by keeping a list of employee violations points and a list of names of violating employees and conducting due diligence investigation on termination of employment in an effort to constantly improve the management mechanism of employee conduct; continued to strengthen the supervision and inspection of various business activities and non-compliance accountability and earnestly implemented the strict management requirements with a view to ensuring compliance operation and healthy business development.

During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2017 across all departments of the Head Office, its branches and sub-branches. As reviewed by the Board of Directors of the Company, no significant defects in terms of completeness, reasonableness and effectiveness were found in the Company's internal control system published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7.5 Main amendments to the Articles of Association

During the reporting period, the Company revised the Articles of Association. For details, please refer to the 2017 Annual General Meeting document and the Annual General Meeting Circular of the Company published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company. The revised Articles of Association of the Company is subject to the approval by the China Banking and Insurance Regulatory Commission.

7.6 Compliance with the corporate governance code

During the reporting period, except the disclosure below, the Company has applied the principles set out in the Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules and has complied with all the code provisions (including the revised risk management and internal control principles) and recommended best practices (if applicable). As far as Article E.1.2 of the Corporate Governance Code is concerned, the Chairman, also being the Chairman of the Strategy Committee of the Board of Directors, was unable to attend the 2017 Annual General Meeting of the Company held on 27 June 2018 due to business issue.

Report on Review of Interim Financial Report

Deloitte.
德勤

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TO THE BOARD OF DIRECTORS OF

China Merchants Bank Co., Ltd.

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

Introduction

We have reviewed the interim consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 110 to 238, which comprise the consolidated statement of financial position as of 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

24 August 2018

Unaudited Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Notes	**2018**	2017
Interest income	3	**131,175**	116,393
Interest expense	4	**(54,163)**	(45,497)
Net interest income		**77,012**	70,896
Fee and commission income	5	**40,398**	37,526
Fee and commission expense		**(2,929)**	(2,776)
Net fee and commission income		**37,469**	34,750
Other net income	6	**10,780**	6,984
Operating income		**125,261**	112,630
Operating expenses	7	**(35,729)**	(30,442)
Operating profit before impairment losses		**89,532**	82,188
Impairment losses	8	**(31,429)**	(32,648)
Share of profits of joint ventures	18	**619**	401
Share of profits of associates	19	**223**	1
Profit before taxation		**58,945**	49,942
Income tax	9	**(14,076)**	(10,476)
Profit for the period		**44,869**	39,466
Attributable to:			
Equity shareholders of the Bank		**44,756**	39,259
Non-controlling interests		**113**	207
Earnings per share			
Basic and diluted (RMB)	11	**1.77**	1.56

The notes on pages 118 to 238 form part of this interim financial report.

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Note	**2018**	2017
Profit for the period		**44,869**	39,466
Other comprehensive income for the period after tax and reclassification adjustments			
Items that may reclassified to profit or loss			
Exchange difference on translation of financial statements of foreign operations		**579**	(951)
Available-for-sale financial assets: net movement in investment revaluation reserve		**N/A**	(2,553)
Cash flow hedge: net movement in hedging reserve		**154**	(83)
Equity-accounted investees – share of other comprehensive income		**(86)**	21
Net movement in investment revaluation reserve for debt instruments measured at fair value through other comprehensive income		**3,031**	N/A
Item that will not be reclassified subsequently to profit or loss			
Fair value gain on equity instruments measured at fair value through other comprehensive income		**122**	N/A
Other comprehensive income for the period, net of tax	10	**3,800**	(3,566)
Attributable to:			
Equity shareholders of the Bank		**3,849**	(3,569)
Non-controlling interests		**(49)**	3
Total comprehensive income for the period		**48,669**	35,900
Attributable to:			
Equity shareholders of the Bank		**48,605**	35,690
Non-controlling interests		**64**	210

The notes on pages 118 to 238 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	30 June 2018	31 December 2017
Assets			
Cash		**14,670**	16,412
Precious metals		**6,945**	9,309
Balances with central banks	12	**539,641**	600,007
Balances with banks and other financial institutions	13	**95,632**	76,918
Placements with banks and other financial institutions	14	**211,945**	154,628
Amounts held under resale agreements	15	**295,813**	252,550
Loans and advances to customers	16	**3,702,913**	3,414,612
Interest receivable		**31,542**	28,726
Investments at fair value through profit or loss	17(a)	**190,850**	64,796
Derivative financial assets	40(f)	**24,764**	18,916
Debt investments at fair value through other comprehensive income	17(b)	**354,081**	N/A
Equity investments designated at fair value through other comprehensive income	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
Interests in joint ventures	18	**5,606**	5,059
Interests in associates	19	**1,452**	20
Property and equipment	20	**50,154**	49,812
Investment properties	21	**1,534**	1,612
Intangible assets	22	**10,310**	7,255
Goodwill	23	**9,954**	9,954
Deferred tax assets	24	**55,144**	50,120
Other assets		**28,443**	23,372
Total assets		**6,537,340**	6,297,638
Liabilities			
Borrowing from central bank		**357,316**	414,838
Deposits from banks and other financial institutions	26	**481,679**	439,118
Placements from banks and other financial institutions	27	**200,889**	272,734
Amounts sold under repurchase agreements	28	**128,105**	125,620
Deposits from customers	29	**4,257,803**	4,064,345
Interest payable		**34,366**	36,501
Financial liabilities at fair value through profit or loss	30	**31,405**	26,619
Derivative financial liabilities	40(f)	**27,461**	21,857
Debt securities issued	31	**343,206**	296,477
Salaries and welfare payable		**9,548**	8,020
Tax payable		**16,567**	26,701
Deferred tax liabilities	24	**1,038**	1,070
Contract liabilities		**4,360**	N/A
Provision	25	**5,127**	450
Other liabilities		**134,419**	79,896
Total liabilities		**6,033,289**	5,814,246

The notes on pages 118 to 238 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	**30 June 2018**	31 December 2017
Equity			
Share capital	32	**25,220**	25,220
Other equity instruments		**34,065**	34,065
Including: Preference shares	33	**34,065**	34,065
Capital reserve		**67,523**	67,523
Investment revaluation reserve	34	**1,638**	(3,812)
Hedging reserve		**68**	(86)
Surplus reserve		**46,159**	46,159
Regulatory general reserve		**70,835**	70,921
Retained profits		**255,436**	219,878
Proposed profit appropriations	35(b)	**–**	21,185
Exchange reserve		**(229)**	(843)
Total equity attributable to equity shareholders of the Bank		**500,715**	480,210
Non-controlling interests		**3,336**	3,182
– Minority interests		**2,201**	2,012
– Perpetual capital instruments		**1,135**	1,170
Total equity		**504,051**	483,392
Total equity and liabilities		**6,537,340**	6,297,638

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

Mr. Li Jianhong	**Mr. Tian Huiyu**	**Company Chop**
Director	*Director*	

The notes on pages 118 to 238 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

		For the six months ended 30 June 2018													
		Total equity attributable to equity shareholders of the Bank											Non-controlling interests		
	Note	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Perpetual capital instruments	Minority interest	Total
At 31 December 2017		25,220	34,065	67,523	(3,812)	(86)	46,159	70,921	219,878	21,185	(843)	480,210	1,170	2,012	483,392
Adjustments of application of accounting policy changes	2	–	–	–	2,368	–	–	–	(9,283)	–	–	(6,915)	–	–	(6,915)
At 1 January 2018		25,220	34,065	67,523	(1,444)	(86)	46,159	70,921	210,595	21,185	(843)	473,295	1,170	2,012	476,477
Changes in equity for the period		–	–	–	3,082	154	–	(86)	44,841	(21,185)	614	27,420	(35)	189	27,574
(a) Net profit for the period		–	–	–	–	–	–	–	44,756	–	–	44,756	32	81	44,869
(b) Other comprehensive income for the period	10	–	–	–	3,081	154	–	–	–	–	614	3,849	(35)	(14)	3,800
Total comprehensive income for the period		–	–	–	3,081	154	–	–	44,756	–	614	48,605	(3)	67	48,669
(c) Changes by the shareholder's equity															
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	139	139
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(17)	(17)
(iii) Issuance of perpetual capital instruments		–	–	–	–	–	–	–	–	–	–	–	–	–	–
(d) Profit appropriations															
(i) Release from regulatory general reserve		–	–	–	–	–	–	(86)	86	–	–	–	–	–	–
(ii) Dividends appropriations for the year 2017		–	–	–	–	–	–	–	–	(21,185)	–	(21,185)	–	–	(21,185)
(iii) Distribution to perpetual capital instruments		–	–	–	–	–	–	–	–	–	–	–	(32)	–	(32)
(e) Transfers within equity upon disposal of equity instruments designated at FVTOCI		–	–	–	1	–	–	–	(1)	–	–	–	–	–	–
At 30 June 2018		25,220	34,065	67,523	1,638	68	46,159	70,835	255,436	–	(229)	500,715	1,135	2,201	504,051

The notes on pages 118 to 238 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

		For the six months ended 30 June 2017												
		Total equity attributable to equity shareholders of the Bank										Non-controlling interests		
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Perpetual capital instruments	Minority interest	Total
At 1 January 2017		25,220	67,523	1,454	(19)	39,708	67,838	180,447	18,663	1,516	402,350	–	1,012	403,362
Changes in equity for the period		–	–	(2,535)	(83)	–	243	39,016	(18,663)	(951)	17,027	1,170	265	18,462
(a) Net profit for the period		–	–	–	–	–	–	39,259	–	–	39,259	–	207	39,466
(b) Other comprehensive income for the period	10	–	–	(2,535)	(83)	–	–	–	–	(951)	(3,569)	–	3	(3,566)
Total comprehensive income for the period		–	–	(2,535)	(83)	–	–	39,259	–	(951)	35,690	–	210	35,900
(c) Changes by the shareholder's equity														
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	–
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	(22)	(22)
(iii) Issuance of perpetual capital instruments		–	–	–	–	–	–	–	–	–	–	1,170	–	1,170
(d) Profit appropriations														
(i) Appropriations to regulatory general reserve		–	–	–	–	–	243	(243)	–	–	–	–	–	–
(ii) Dividends paid/(release) for the year 2016 (note (i))		–	–	–	–	–	–	–	(18,663)	–	(18,663)	–	77	(18,586)
At 30 June 2017		25,220	67,523	(1,081)	(102)	39,708	68,081	219,463	–	565	419,377	1,170	1,277	421,824

Note:

(i) China Merchants Fund Management Co., Ltd. cancelled the dividends distribution scheme of the year ended 31 December 2016 in 2017.

The notes on pages 118 to 238 form part of this interim financial report.

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

	Six months ended 30 June	
	2018	2017
Operating activities		
Profit before tax	**58,945**	49,942
Adjustments for:		
– Impairment losses on loans and advances	**30,378**	33,139
– Impairment losses on investments and other assets	**1,051**	(491)
– Unwind of discount	**(179)**	(446)
– Depreciation of property and equipment and investment properties	**2,503**	2,440
– Amortisation of other assets	**683**	293
– Net gain on debt securities and equity investments	**(6,142)**	(4,007)
– Interest income on investments	**(24,098)**	(24,653)
– Interest expense on issued debt securities	**6,611**	5,983
– Share of profits of associates	**(223)**	(1)
– Share of profits of joint ventures	**(619)**	(401)
– Net gains on disposal of property and equipment and other assets	**(155)**	(7)
Changes in:		
Balances with central bank	**64,454**	(18,610)
Loans and advances to customers	**(291,420)**	(285,010)
Other assets	**(7,737)**	(4,612)
Deposits from customers	**193,458**	340,205
Deposits and placements from banks and other financial institutions	**(26,799)**	(196,709)
Balances and placements with banks and other financial institutions with original maturity over 3 months	**(15,930)**	48,975
Borrowing from central bank	**(57,522)**	21,434
Other liabilities	**34,833**	(1,843)
Cash used in operating activities before income tax payment	**(37,908)**	(34,379)
Income tax paid	**(27,716)**	(21,497)
Net cash used in operating activities	**(65,624)**	(55,876)
Investing activities		
Payment for the purchases of investments	**(422,293)**	(331,828)
Payment for the purchases of property and equipment and other assets	**(7,799)**	(6,024)
Payment for the subsidiaries, associates, joint venture	**(1,033)**	(6)
Proceeds from the disposals of investments	**559,148**	221,500
Gains received from investments	**29,550**	33,842
Proceeds from the disposals of subsidiaries, associates, joint venture	**9**	29
Proceeds from the disposals of property and equipment and other assets	**1,677**	18
Net cash generated from (used in) investing activities	**159,259**	(82,469)

The notes on pages 118 to 238 form part of this interim financial report.

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2018	2017
Financing activities			
Proceeds from the issue of debt securities		**10,887**	32,318
Proceeds from the issue of negotiable interbank certificates of deposit		**269,272**	153,580
Proceeds from the issue of certificates of deposit		**13,916**	21,395
Proceeds from perpetual capital instruments		**–**	1,170
Proceeds from subsidiary absorbs non-controlling shareholder investment		**139**	–
Repayment of negotiable interbank certificates of deposit		**(234,500)**	(103,295)
Repayment of certificates of deposit		**(11,791)**	(7,719)
Repayment of debt securities issued		**(6,277)**	(27,239)
Repayment of redemption of non-controlling equity		**(17)**	(22)
Dividends paid		**(32)**	(15,265)
Interest paid on financing activities		**(1,377)**	(7,204)
Net cash generated from financing activities		**40,220**	47,719
Net increase/(decrease) in cash and cash equivalents		**133,855**	(90,626)
Cash and cash equivalents as at 1 January		**460,425**	532,112
Effect of foreign exchange rate changes		**1,169**	(1,340)
Cash and cash equivalents as at 30 June	36(a)	**595,449**	440,146
Cash flows from operating activities include:			
Interest received		**104,437**	89,639
Interest paid		**49,764**	41,257

The notes on pages 118 to 238 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

1. General information

China Merchants Bank Co., Ltd. (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002. On 22 September 2006, the Bank's H-Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx").

The principal activities of the Bank and its subsidiaries (the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management and other financial service.

As at 30 June 2018, apart from the Head Office, the Bank had 51 branches in the Mainland China, Hong Kong, New York, Singapore, Luxembourg, London and Sydney. In addition, the Bank has four representative offices in Beijing, London, New York and Taipei.

The particulars of the Bank's major subsidiaries as at 30 June 2018 are set out below.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activity	Economic nature	Chairman of the Board
CMB International Capital Holdings Corporation Limited ("CMBICHC")	Hong Kong	HKD4,129	100%	Financial advisory services	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited ("CMBFLC")	Shanghai	RMB6,000	100%	Finance lease	Limited company	Lian Bolin
Wing Lung Bank Limited ("WLB")	Hong Kong	HKD1,161	100%	Banking	Limited company	Tian Huiyu
China Merchants Fund Management Co., Ltd. ("CMFM")	Shenzhen	RMB1,310	55%	Fund management	Limited company	Li Hao

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements

(a) Basis of preparation and principal accounting policies

This unaudited interim financial report has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This interim financial report also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKEx.

This unaudited interim financial report of the Group should be read in conjunction with the 2017 annual consolidated financial statements.

This interim financial report is unaudited but reviewed by the Audit Committee of the Board. This unaudited interim financial report is also reviewed by Deloitte Touche Tohmatsu in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the Group's accounting policies applied in preparing this unaudited interim financial report are consistent with those policies applied in preparing the Group's annual financial statements for the year ended 31 December 2017.

i. New and revised IFRSs effective in the current period applied by the Group

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 40	Transfers of Investment Property
Amendments to IAS 28	As part of the annual Improvements to IFRS standards 2014-2016 Cycle

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group* (continued)

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, contract assets, lease receivables, loan commitments and financial guarantee contracts, and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and investment revaluation reserve, without restating comparative information. Accordingly, certain comparative information may not be comparable in this interim financial report.

(1.1) Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

All recognized financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. New and revised IFRSs effective in the current period applied by the Group (continued)

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments *(continued)*

(1.1) Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

Classification and measurement of financial assets *(continued)*

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment, which is not held for trading, in other comprehensive income ("OCI").

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments and loans and advances to customers classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments and loans and advances to customers classified as at FVTOCI as a result of interest income calculated using the effective interest method, foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of debt instruments and loan and advances to customers are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment losses are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of debt instruments and loan and advances to customers. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if debt instruments and loan and advances to customers had been measured at amortised cost. When debt instruments and loan and advances to customers are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments which are not held for trading as at FVTOCI. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group* (continued)

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

(1.1) Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

Classification and measurement of financial assets *(continued)*

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL. Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other net income" line item.

Accounts receivable arising from the group's contracts with customers are initially measured in accordance with IFRS 15 – Revenue from Contracts with Customers.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9, including financial assets at amortised cost, debt instruments assets at fair value through other comprehensive income, lease receivables, precious metals lease, loan commitments and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group assesses the ECL of financial assets with forward-looking information. 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. In contrast, lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. Assessment are done based on the factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For above financial assets which are subjected to impairment under IFRS 9, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in credit risk since initial recognition.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group* *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments *(continued)*

(1.1) Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

Impairment under ECL model *(continued)*

Significant increase 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 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 both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The assessment of whether the credit risk has increased significantly are detailed in Note 40(a).

Measurement and recognition of ECL

ECL is measured based on the probability of default, loss given default and the exposure at default. Measurement of ECL are detailed in Note 40(a).

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group:

- if the holder of the loan commitments draws down the loan, and
- the cash flows that the Group expects to receive if the loan is drawn down.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group* (continued)

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

(1.1) Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

Impairment under ECL model *(continued)*

Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For investments in debt instruments and loans and advances to customers that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amounts of these financial assets. The loss allowance for loan commitments and financial guarantee contracts is recognised in profit or loss and accumulated in provision. The loss allowance for other financial assets which are subject to impairment under IFRS 9 is recognised in profit or loss through a loss allowance account.

Hedge accounting

The Group has elected to adopt the new general hedge accounting in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group (continued)*

(1) *Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments* (continued)

(1.1) Key changes in accounting policies resulting from application of IFRS 9 *(continued)*

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

(1.2) Summary of effects arising from initial application of IFRS 9

Impacts from classification and measurement

The directors of the Bank reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement (including impairment) on the Group's financial assets and the impacts thereof are detailed below:

	IAS 39 31 December 2017	Reclassification	Remeasurement	**IFRS 9 1 January 2018**
Balances with banks and other financial institutions				
IAS 39	76,918			
Remeasurement: ECL			(22)	
IFRS 9				**76,896**
Placements with banks and other financial institutions				
IAS 39	154,628			
Remeasurement: ECL			(49)	
IFRS 9				**154,579**
Amounts held under resale agreements				
IAS 39	252,550			
Remeasurement: ECL			(610)	
IFRS 9				**251,940**

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group (continued)*

(1) *Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)*

(1.2) Summary of effects arising from initial application of IFRS 9 *(continued)*

Impacts from classification and measurement (continued)

	IAS 39 31 December 2017	Reclassification	Remeasurement	**IFRS 9 1 January 2018**
Loans and advances to customers at amortised cost				
IAS 39	3,414,612			
Transfer to loans and advances to customers at FVTOCI (note (i))		(136,918)		
Remeasurement: ECL			(923)	
IFRS 9				**3,276,771**
Loans and advances to customers at FVTOCI				
IAS 39	–			
From loans and advances to customers at amortised cost (note (i))		136,918		
Remeasurement: from amortised cost to fair value (note (i))			(90)	
IFRS 9				**136,828**
Investments at FVTPL				
IAS 39	64,796			
From available-for-sale financial assets (note (ii))		49,055		
From debt securities classified as receivables (note (iii))		205,657		
Remeasurement: from amortised cost to fair value (note (iii))			(935)	
IFRS 9				**318,573**

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group* (continued)

(1) *Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments* (continued)

(1.2) Summary of effects arising from initial application of IFRS 9 *(continued)*

Impacts from classification and measurement (continued)

	IAS 39 31 December 2017	Reclassification	Remeasurement	**IFRS 9 1 January 2018**
Available-for-sale financial assets				
IAS 39	383,101			
Transfer to Investments at FVTPL (note (ii))		(49,055)		
Transfer to Debt investments at FVTOCI (note (iv))		(331,498)		
Transfer to Equity investments designated at FVTOCI		(1,648)		
Transfer to Debt investments at amortised cost		(900)		
IFRS 9				–
Held-to-maturity investments				
IAS 39	558,218			
Transfer to Debt investments at amortised cost (note (vi))		(558,218)		
IFRS 9				–
Debt securities classified as receivables				
IAS 39	572,241			
Transfer to Investments at FVTPL (note (iii))		(205,657)		
Transfer to Debt investments at FVTOCI		(1,540)		
Transfer to Debt investments at amortised cost (note (v))		(365,044)		
IFRS 9				–
Debt investments at FVTOCI				
IAS 39	–			
From Available-for-sale financial assets (note (iv))		331,498		

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group* (continued)

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

(1.2) Summary of effects arising from initial application of IFRS 9 *(continued)*

Impacts from classification and measurement (continued)

	IAS 39 31 December 2017	Reclassification	Remeasurement	**IFRS 9 1 January 2018**
From Debt securities classified as receivables		1,540		
Remeasurement: from amortised cost to fair value			342	
IFRS 9				**333,380**
Equity investments designated at FVTOCI				
IAS 39	–			
From Available-for-sale financial assets		1,648		
From other assets		100		
Remeasurement: from cost to fair value			1,177	
IFRS 9				**2,925**
Debt investments at amortised cost				
IAS 39	–			
From Available-for-sale financial assets		900		
From Held-to-maturity investments (note (vi))		558,218		
From Debt securities classified as receivables (note (v))		365,044		
Remeasurement: ECL			(2,670)	
Remeasurement: from fair value to amortised cost			2	
IFRS 9				**921,494**
Interest receivable				
IAS 39	28,726			
Remeasurement: ECL			(546)	
IFRS 9				**28,180**

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group (continued)*

(1) ***Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments*** *(continued)*

(1.2) Summary of effects arising from initial application of IFRS 9 *(continued)*

Impacts from classification and measurement (continued)

	IAS 39 31 December 2017	Reclassification	Remeasurement	**IFRS 9 1 January 2018**
Precious metals				
IAS 39	9,309			
Remeasurement: ECL (note (vii))			17	
IFRS 9				**9,326**
Other assets				
IAS 39	23,372			
Transfer to Equity investments designated at FVTOCI		(100)		
IFRS 9				**23,272**
Deferred tax assets				
IAS 39	50,120			
Remeasurement			2,216	
IFRS 9				**52,336**
Provision				
IAS 39	450			
Remeasurement: ECL			4,824	
IFRS 9				**5,274**
Investment revaluation reserve				
IAS 39	(3,812)			
Remeasurement			2,368	
IFRS 9				**(1,444)**
Retained profits				
IAS 39	219,878			
Remeasurement			(9,283)	
IFRS 9				**210,595**

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group (continued)*

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments (continued)

(1.2) Summary of effects arising from initial application of IFRS 9 *(continued)*

Impacts from classification and measurement (continued)

Notes:

(i) Loans and advances to customers at amortised cost of RMB136,918 million were reclassified to loans and advances to customers at FVTOCI, as these loans and advances to customers are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these loans are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB90 million was adjusted to loans and advances to customers at FVTOCI and revaluation reserve as at 1 January 2018.

(ii) Available-for-sale investments of RMB49,055 million were reclassified to investments at FVTPL. This is because the cash flows of these investments did not represent solely payments of principal and interest on the principal amount outstanding.

(iii) Debt securities classified as receivables of RMB205,657 million were reclassified to investments at FVTPL upon the application of IFRS 9 because the contractual cash flows did not represent solely payments of principal and interest on the principal amount outstanding. The related fair value losses of RMB935 million was adjusted to investments at FVTPL and retained profits as at 1 January 2018.

(iv) Available-for-sale investments of RMB331,498 million were reclassified to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding.

(v) Debt securities classified as receivables of RMB365,044 million were reclassified and measured at amortised cost upon application of IFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(vi) Bonds previously classified as held-to-maturity investments were reclassified and measured at amortised cost upon application of IFRS 9. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(vii) As described in Note 2, the Group recognised a loss allowance for ECL on precious metals lease which are subject to impairment under IFRS 9.

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. New and revised IFRSs effective in the current period applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments *(continued)*

(1.2) Summary of effects arising from initial application of IFRS 9 *(continued)*

Impacts from ECL

As at 1 January 2018, the directors of the Bank reviewed and assessed the Group's existing financial assets, lease receivables, precious metals lease, loan commitments and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9.

All loss allowances for financial assets, lease receivables, precious metals lease, loan commitments and financial guarantee contracts as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Loans and advances to customers at amortised cost	Loans and advances to customers at FVTOCI	Debt instruments at FVTOCI	Debt investments at amortised cost	Financial guarantee contracts and credit commitment	Available-for-sale financial assets	Debt securities classified as receivables	Held-to-maturity investments	Balances with banks and other financial institutions	Placements with banks and other financial institutions	Amounts held under resale agreements	Interest receivable	Precious metals
At 31 December 2017 – IAS 39	150,432	–	–	–	–	531	4,302	93	116	135	754	–	22
Reclassification	(15)	15	455	4,395	–	(531)	(4,302)	(93)	–	–	–	–	–
Amounts remeasured through opening retained profits	923	–	–	2,670	4,824	–	–	–	22	49	610	546	(17)
Amounts remeasured through investment revaluation reserve	–	165	990	–	–	–	–	–	–	–	–	13	–
At 1 January 2018	**151,340**	**180**	**1,445**	**7,065**	**4,824**	**–**	**–**	**–**	**138**	**184**	**1,364**	**559**	**5**

Impacts from Hedge accounting

The Group applies the hedge accounting requirements of IFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with IAS 39 are regarded as continuing hedging relationship if all qualifying criteria under IFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate the full change in the fair value of several interest rate swap contracts as the hedging instrument for all of its hedging relationships involving interest rate risk. As such, the adoption of the hedge accounting requirements of IFRS 9 had not resulted in adjustments to comparative figures.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group (continued)*

(2) Impacts and changes in accounting policies of application on IFRS 15

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue and the related interpretations. In accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

(2.1) Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. New and revised IFRSs effective in the current period applied by the Group (continued)

(2) Impacts and changes in accounting policies of application on IFRS 15 (continued)

(2.1) Key changes in accounting policies resulting from application of IFRS 15 *(continued)*

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. New and revised IFRSs effective in the current period applied by the Group (continued)

(2) Impacts and changes in accounting policies of application on IFRS 15 (continued)

(2.1) Key changes in accounting policies resulting from application of IFRS 15 *(continued)*

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that goods or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

(2.2) Summary of effects arising from initial application of IFRS 15

There is no significant impact on retained profits on initial application of IFRS 15. At 1 January 2018, total deferred income RMB3,695 million, which related to the sales of credit card points, were reclassified from other liabilities to contract liabilities upon application of IFRS 15, refer to Note 2(a)(3).

As at 30 June 2018, if the statement of financial position was presented without application of IFRS 15, contract liabilities amounting to RMB 4,360 million upon application of IFRS 15 would be presented and included in other liabilities.

Except as described above, the application of other amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements.

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. New and revised IFRSs effective in the current period applied by the Group *(continued)*

(3) Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments

As a result of the changes in the Group's accounting policies as described above, the opening consolidated statement of financial position had to be adjusted. The following table show the adjustments recognised for each individual line item.

	31 December 2017	IFRS 9	IFRS 15	**1 January 2018**
Assets				
Cash	16,412	–	–	**16,412**
Precious metals	9,309	17	–	**9,326**
Balances with central bank	600,007	–	–	**600,007**
Balances with banks and other financial institutions	76,918	(22)	–	**76,896**
Placements with banks and other financial institutions	154,628	(49)	–	**154,579**
Amounts held under resale agreements	252,550	(610)	–	**251,940**
Loans and advances to customers	3,414,612	(1,013)	–	**3,413,599**
Interest receivable	28,726	(546)	–	**28,180**
Investments at fair value through profit or loss	64,796	253,777	–	**318,573**
Derivative financial assets	18,916	–	–	**18,916**
Debt investments at fair value through other comprehensive income	–	333,380	–	**333,380**
Equity investments designated at fair value through other comprehensive income	–	2,925	–	**2,925**
Debt investments at amortised cost	–	921,494	–	**921,494**
Available-for-sale financial assets	383,101	(383,101)	–	**–**
Held-to-maturity investments	558,218	(558,218)	–	**–**
Debt securities classified as receivables	572,241	(572,241)	–	**–**
Interests in joint ventures	5,059	–	–	**5,059**
Interests in associates	20	–	–	**20**
Property and equipment	49,812	–	–	**49,812**
Investment properties	1,612	–	–	**1,612**
Intangible assets	7,255	–	–	**7,255**
Goodwill	9,954	–	–	**9,954**
Deferred tax assets	50,120	2,216	–	**52,336**
Other assets	23,372	(100)	–	**23,272**
Total assets	6,297,638	(2,091)	–	**6,295,547**

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group* (continued)

(3) *Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments* (continued)

	31 December 2017	IFRS 9	IFRS 15	**1 January 2018**
Liabilities				
Borrowing from central bank	414,838	–	–	**414,838**
Deposits from banks and other financial institutions	439,118	–	–	**439,118**
Placements from banks and other financial institutions	272,734	–	–	**272,734**
Amounts sold under repurchase agreements	125,620	–	–	**125,620**
Deposits from customers	4,064,345	–	–	**4,064,345**
Interest payable	36,501	–	–	**36,501**
Financial liabilities at fair value through profit or loss	26,619	–	–	**26,619**
Derivative financial liabilities	21,857	–	–	**21,857**
Debt securities issued	296,477	–	–	**296,477**
Salaries and welfare payable	8,020	–	–	**8,020**
Tax payable	26,701	–	–	**26,701**
Deferred tax liabilities	1,070	–	–	**1,070**
Contract liabilities	–	–	3,695	**3,695**
Provision	450	4,824	–	**5,274**
Other liabilities	79,896	–	(3,695)	**76,201**
Total liabilities	5,814,246	4,824	–	**5,819,070**

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

i. *New and revised IFRSs effective in the current period applied by the Group (continued)*

(3) *Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments (continued)*

	31 December 2017	IFRS 9	IFRS 15	**1 January 2018**
Equity				
Share capital	25,220	–	–	**25,220**
Other equity instruments	34,065	–	–	**34,065**
Including: Preference shares	34,065	–	–	**34,065**
Capital reserve	67,523	–	–	**67,523**
Investment revaluation reserve	(3,812)	2,368	–	**(1,444)**
Hedging reserve	(86)	–	–	**(86)**
Surplus reserve	46,159	–	–	**46,159**
Regulatory general reserve	70,921	–	–	**70,921**
Retained profits	219,878	(9,283)	–	**210,595**
Proposed profit appropriations	21,185	–	–	**21,185**
Exchange reserve	(843)	–	–	**(843)**
Total equity attributable to equity shareholders of the Bank	480,210	(6,915)	–	**473,295**
Non-controlling interests	3,182	–	–	**3,182**
– Minority interests	2,012	–	–	**2,012**
– Perpetual capital instrument	1,170	–	–	**1,170**
Total equity	483,392	(6,915)	–	**476,477**
Total equity and liabilities	6,297,638	(2,091)	–	**6,295,547**

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(a) Basis of preparation and principal accounting policies *(continued)*

ii Standards and amendments that are not yet effective and have not been adopted by the Group

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

(b) Accounting estimates and judgements

Except for below accounting estimates and judgements, the Group's other accounting estimates and judgements applied in preparing these unaudited interim financial report are consistent with those accounting estimates and judgements applied in preparing the consolidated financial statements for the year ended 31 December 2017.

Classification of financial assets

- Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or FVTOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

2. Basis of preparation, principal accounting policies, accounting estimates and judgements *(continued)*

(b) Accounting estimates and judgements *(continued)*

Impairment under ECL model

- Significant increase of credit risk: ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 40(a) for more details.

- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 40(a) for details of the characterics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 40(a) for more details on ECL and Note 40(g) for more details on fair value measurement.

- Forward-looking information: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 40(a) for more details.

- Probability of Default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to Note 40(a) for more details.

- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to Note 40(a) for more details.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

3. Interest income

	Six months ended 30 June	
	2018	2017
Loans and advances to customers		
– Corporate loans	**36,121**	32,451
– Retail loans	**53,730**	47,163
– Discounted bills	**4,255**	1,976
Balances with central banks	**4,027**	4,279
Balances with banks and other financial institutions	**992**	516
Placements with banks and other financial institutions	**4,197**	2,797
Amounts held under resale agreements	**3,755**	2,558
Investments	**24,098**	24,653
– Debt investments at fair value through other comprehensive income	**5,731**	N/A
– Debt investments at amortised cost	**18,367**	N/A
Interest income on financial assets measured at amortised cost and fair value through other comprehensive income	**131,175**	116,393

Note: For the six months ended 30 June 2018, included in the above is interest income of RMB179 million accrued on impaired loans (for the six months ended 30 June 2017: RMB446 million), nil on impaired debt securities investments (for the six months ended 30 June 2017: nil), and RMB4,431 million on loans and advances to customers at fair value through other comprehensive income (for the six months ended 30 June 2017: not applicable).

4. Interest expense

	Six months ended 30 June	
	2018	2017
Deposits from customers	**29,667**	24,216
Borrowing from central banks	**5,447**	4,126
Deposits from banks and other financial institutions	**6,394**	4,268
Placements from banks and other financial institutions	**3,806**	3,826
Amounts sold under repurchase agreements	**2,238**	3,078
Debt securities issued	**6,611**	5,983
Interest expense on financial liabilities measured at amortised cost	**54,163**	45,497

(Expressed in millions of Renminbi unless otherwise stated)

5. Fee and commission income

	Six months ended 30 June	
	2018	2017
Bank cards fees	**8,126**	6,512
Settlement and clearing fees	**5,788**	5,429
Agency services fees	**9,197**	8,280
Commissions from credit commitment and lending business	**3,333**	2,271
Commissions on trust and fiduciary activities	**11,465**	11,942
Others	**2,489**	3,092
Total	**40,398**	37,526

6. Other net income

	Six months ended 30 June	
	2018	2017
Profit (loss) from fair value change		
– financial instruments held for trading	**N/A**	(130)
– financial instruments mandatorily measured at FVTPL	**1,055**	N/A
– financial instruments designated at FVTPL	**(64)**	19
– derivatives instruments	**148**	122
– precious metals	**(83)**	110
Profit from investments		
– financial instruments at FVTPL	**5,226**	636
– available-for-sale financial assets	**N/A**	423
– disposal of financial instruments at amortised cost	**1**	N/A
– disposal of debt instruments at FVTOCI	**773**	N/A
– of which: gain on disposal of bills	**776**	N/A
– dividend income from equity investments designated at FVTOCI	**133**	N/A
– gain on disposal of bills	**N/A**	2,544
– others	**9**	75
Exchange gain	**1,559**	1,605
Other income		
– rental income	**1,628**	1,347
– insurance income	**156**	168
Others	**239**	65
Total	**10,780**	6,984

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

7. Operating expenses

	Six months ended 30 June	
	2018	2017
Staff costs		
– Salaries and bonuses	**15,183**	12,288
– Social insurance and corporate supplemental insurance	**3,352**	2,771
– Others	**2,988**	2,675
Subtotal	**21,523**	17,734
Turnover tax and surcharges	**987**	1,073
Property, equipment and investment properties depreciation	**2,503**	2,440
Intangible assets amortisation	**472**	288
Rental expenses	**2,144**	2,066
Other general and administrative expenses	**7,992**	6,721
Subtotal	**14,098**	12,588
Charge for insurance claims	**108**	120
Total	**35,729**	30,442

8. Impairment losses

	Six months ended 30 June	
	2018	2017
Loans and advances to customers (Note 16(c))	**30,378**	33,139
Amounts due from banks and other financial institutions (Note 13, Note 14(c), Note 15(d))	**(106)**	100
Investments		
– Debt investments at FVTOCI (Note 17(b))	**597**	N/A
– Debt investments at amortised cost (Note 17(d))	**662**	N/A
– Available-for-sale financial assets	**N/A**	(87)
– Held-to-maturity investments	**N/A**	7
– Debt securities classified as receivables	**N/A**	(880)
Expected credit impairment losses	**(166)**	N/A
Others	**64**	369
Total	**31,429**	32,648

(Expressed in millions of Renminbi unless otherwise stated)

9. Income tax

(a) Income tax in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2018	2017
Current income tax expense		
– Mainland China	**17,283**	18,393
– Hong Kong	**520**	560
– Overseas	**113**	99
Subtotal	**17,916**	19,052
– Deferred taxation	**(3,840)**	(8,576)
Total	**14,076**	10,476

(b) A reconciliation of income tax expense in the consolidated statement of profit or loss and that calculated at the applicable tax rate is as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Profit before taxation	**58,945**	49,942
Tax at the PRC statutory income tax rate of 25% (six months ended 30 June 2017: 25%)	**14,741**	12,486
Tax effects of the following items:		
– Effects of non-deductible expenses	**406**	269
– Effects of non-taxable income	**(2,773)**	(2,193)
– Effects of different applicable rates of tax prevailing in other jurisdictions	**(130)**	(86)
– Transfer out of prior deferred tax assets	**1,832**	–
Income tax expense	**14,076**	10,476

Notes:

(i) The applicable income tax rate for the Bank's Mainland China operations is 25% for the six months ended 30 June 2018. (Six months ended 30 June 2017: 25%).

(ii) The applicable income tax rate in Hong Kong is 16.5% for the six months ended 30 June 2018. (Six months ended 30 June 2017: 16.5%).

(iii) Taxation for overseas operations is charged at the applicable rates of tax prevailing in relevant countries or regions.

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(Expressed in millions of Renminbi unless otherwise stated)

10. Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	Six months ended 30 June					
	2018			2017		
	Before-tax amount	**Tax benefit/ (expense)**	**Net-of-tax amount**	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Items that may be reclassified to profit or loss						
– Net movement in fair value reserve of available-for-sale financial assets	**N/A**	**N/A**	**N/A**	(3,464)	911	(2,553)
– Net movement in cash flow hedge reserve	**195**	**(41)**	**154**	(111)	28	(83)
– Exchange difference on translation of financial statements of foreign operations	**579**	**–**	**579**	(951)	–	(951)
– Reserve changes in debt instruments at FVTOCI	**3,940**	**(909)**	**3,031**	N/A	N/A	N/A
– Equity-accounted investees-share of other comprehensive income	**(86)**	**–**	**(86)**	21	–	21
Items that will not be reclassified subsequently to profit or loss						
– Fair value reserve on equity instruments measured at FVTOCI	**156**	**(34)**	**122**	N/A	N/A	N/A
Other comprehensive income	**4,784**	**(984)**	**3,800**	(4,505)	939	(3,566)

(Expressed in millions of Renminbi unless otherwise stated)

10. Other comprehensive income *(continued)*

(b) Movement relating to the components of other comprehensive income

	Six months ended 30 June	
	2018	2017
Available-for-sale financial assets		
Changes in fair value recognised during the period	**N/A**	(2,446)
Reclassification adjustments for amounts transferred to profit or loss:		
– On disposal	**N/A**	(107)
Net movement in the investment reserve during the period recognised in other comprehensive income	**N/A**	(2,553)
Reserve changes in debt instruments at FVTOCI		
Changes in fair value recognised during the period	**3,259**	N/A
Reclassification adjustments for amounts transferred to profit or loss		
– On disposal	**(773)**	N/A
– ECL recognised	**545**	N/A
Net movement in the debt instrument revaluation reserve during the period recognised in other comprehensive income	**3,031**	N/A
Reserve changes in equity investment designated at FVTOCI		
Changes in fair value recognised during the period	**122**	N/A
Net movement in the equity investment revaluation reserve during the period recognised in other comprehensive income	**122**	N/A
Cash flow hedge		
Effective portion of changes in fair value of hedging instruments	**119**	(64)
Reclassification adjustment for realised gains(loss) transferred to profit or loss	**35**	(19)
Net movement in the hedging reserve during the period recognised in other comprehensive income	**154**	(83)

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11. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2018 and 2017 is based on the net profit attributable to equity shareholders of the Bank and the weighted average number of shares in issue. There is no difference between basic and diluted earnings per share as there are no potentially dilutive shares outstanding during the six months ended 30 June 2018 and 2017.

	Six months ended 30 June	
	2018	2017
Net profit attributable to equity shareholders of the Bank	**44,756**	39,259
Weighted average number of shares in issue (in million) (note)	**25,220**	25,220
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**1.77**	1.56

Notes:

The Bank issued non-cumulative preference share in 2017. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur as at 30 June 2018. Therefore the conversion feature of preference shares has no effect on the diluted earnings per share calculation.

12. Balances with central banks

	30 June 2018	31 December 2017
Statutory deposit reserve (note (i))	**466,215**	530,509
Surplus deposit reserve (note (ii))	**72,100**	68,012
Fiscal deposits	**1,326**	1,486
Total	**539,641**	600,007

Notes:

(i) Statutory deposit reserve funds are deposited with the People's Bank of China (the "PBOC") and other central banks outside the Mainland China as required and are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 12.5% and 5.0% for eligible RMB deposits and foreign currency deposits respectively as at 30 June 2018 (31 December 2017: 15.0% and 5.0% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organizations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and overseas RMB deposits from overseas financial institutions.

(ii) Surplus deposit reserve maintained with the PBOC and central banks outside the Mainland China are mainly for clearing purposes.

(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

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(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

(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

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(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

(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**

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(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**

(Expressed in millions of Renminbi unless otherwise stated)

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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(Expressed in millions of Renminbi unless otherwise stated)

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			
	Impairment allowances for loans and advances	Impairment allowances for impaired loans and advances		
	which are collectively assessed	Which are collectively assessed	Which are individually assessed	Total
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

(Expressed in millions of Renminbi unless otherwise stated)

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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(Expressed in millions of Renminbi unless otherwise stated)

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

(Expressed in millions of Renminbi unless otherwise stated)

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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(Expressed in millions of Renminbi unless otherwise stated)

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
Repossessed 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.

(Expressed in millions of Renminbi unless otherwise stated)

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
Subtotal	333,784
Equity investments	3,301
Investments in funds	46,547
Subtotal	383,632
Less: impairment allowances	(531)
Total	383,101
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)
At 31 December	531

(Expressed in millions of Renminbi unless otherwise stated)

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

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

(Expressed in millions of Renminbi unless otherwise stated)

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

(Expressed in millions of Renminbi unless otherwise stated)

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**

	Land use rights	Software and others	Core deposits	Total
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.

(Expressed in millions of Renminbi unless otherwise stated)

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

(Expressed in millions of Renminbi unless otherwise stated)

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

(Expressed in millions of Renminbi unless otherwise stated)

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

(Expressed in millions of Renminbi unless otherwise stated)

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 11th 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 6th 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 6th 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

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).

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

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:

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.

(Expressed in millions of Renminbi unless otherwise stated)

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.

(Expressed in millions of Renminbi unless otherwise stated)

37. Operating segments *(continued)*

(c) Geographical segments *(continued)*

Geographical information	Total assets		Total liabilities		Non-current assets		Operating income		Profit before tax	
	30 June 2018	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**Six months ended 30 June 2018**	Six months ended 30 June 2017	**Six months ended 30 June 2018**	Six months ended 30 June 2017
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.

(Expressed in millions of Renminbi unless otherwise stated)

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

(Expressed in millions of Renminbi unless otherwise stated)

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.

(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.

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.

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.

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.

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).

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.

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.

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.

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.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

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

(Expressed in millions of Renminbi unless otherwise stated)

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.

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

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)

(Expressed in millions of Renminbi unless otherwise stated)

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**

(Expressed in millions of Renminbi unless otherwise stated)

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)*

	30 June 2018			
	Level 1	Level 2	Level 3	Total
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			
	Level 1	Level 2	Level 3	Total
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

(Expressed in millions of Renminbi unless otherwise stated)

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			
	Level 1	Level 2	Level 3	Total
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.

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 blow:

	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)

(Expressed in millions of Renminbi unless otherwise stated)

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.

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

(Expressed in millions of Renminbi unless otherwise stated)

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	7,559,427,375	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	3,289,470,337	13.04% (note (ii))	–	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	USD0.05 million	386,924,063	1.53%	–	–	Shareholder	Joint stock limited company	–
China Merchants Union (BVI) Co., Ltd.	British Virgin Islands	USD0.06 million	477,903,500	1.89%	–	–	Shareholder	Limited company	–
China Merchants Industry Development (Shenzhen) Co., Ltd.	Shenzhen	USD10 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	2,515,193,034	9.97% (note (iv))	–	International shipping business, import and export of goods and technology, etc.	Shareholder's parent company	Limited company	Xu Lirong
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 Lirong
China COSCO Shipping (Guangzhou) Co., Ltd.	Guang zhou	RMB32 million	696,450,214	2.76%	–	Shipping business	Shareholder	Limited company	Shou Jian

(Expressed in millions of Renminbi unless otherwise stated)

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 Bangtao
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 (v))	–	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 (vi))	–	General contraction 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 contraction 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. (CMBICHC)	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

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 it 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.

(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

(Expressed in millions of Renminbi unless otherwise stated)

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
On-balance sheet:		
– Loans and advances to customers	**14,984**	11,122
– Investments	**3,710**	5,109
– Deposits from customers	**55,092**	53,686
Off-balance sheet:		
– Irrevocable guarantees	**1,598**	1,489
– Irrevocable letters of credit	**456**	91
– Bills of acceptances	**146**	36

(Expressed in millions of Renminbi unless otherwise stated)

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
On-balance sheet:		
– Loans and advances to customers	**3,716**	6,955
– Investments	**1,790**	1,063
– Deposits from customers	**17,686**	25,327
Off-balance sheet:		
– 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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For the Six Months ended 30 June 2018

(Expressed in millions of Renminbi unless otherwise stated)

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
On-balance sheet:		
– Loans and advances to customers	**1,792**	2,665
– Placements	**8,100**	2,700
– Deposits from customers	**865**	902
Off-balance sheet:		
– 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

(Expressed in millions of Renminbi unless otherwise stated)

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
On-balance sheet:		
– Loans and advances to customers	**10,574**	7,508
– Investments	**633**	513
– Deposits from customers	**18,631**	23,040
Off-balance sheet:		
– 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)

(Expressed in millions of Renminbi unless otherwise stated)

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.

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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For the Six Months ended 30 June 2018

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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					
	Amounts held under resale agreements	Investments mandatorily measured at FVTPL	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
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						
	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	Maximum exposure
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

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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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.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(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%
Tie-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.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(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

(Expressed in millions of Renminbi unless otherwise stated)

(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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(Expressed in millions of Renminbi unless otherwise stated)

(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

(Expressed in millions of Renminbi unless otherwise stated)

(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

(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.

(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			
	USD	**HKD**	**Others**	**Total**
		(in millions of RMB)		
Non-structural position				
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			
	USD	HKD	Others	Total
		(in millions of RMB)		
Non-structural position				
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.

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