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招商銀行

CHINA MERCHANTS BANK

招商銀行股份有限公司

CHINA MERCHANTS BANK CO., LTD.

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

(H Share Stock Code: 03968)

(Preference Share Stock Code: 04614)

2019 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of China Merchants Bank Co., Ltd. (the “**Company**”) hereby announces the unaudited results of the Company and its subsidiaries for the six months ended 30 June 2019. This announcement, containing the full text of the 2019 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results. Printed version of the Company’s 2019 Interim Report will in due course be delivered to the H-Share Holders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.cmbchina.com).

Publication of Results Announcement

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

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

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

23 August 2019

As at the date of this announcement, the executive director of the Company is Tian Huiyu; the non-executive directors of the Company are Li Jianhong, Fu Gangfeng, Zhou Song, Hong Xiaoyuan, Zhang Jian, Su Min, Wang Daxiong and Luo Sheng; and the independent non-executive directors of the Company are Leung Kam Chung, Antony, Zhao Jun, Wong See Hong, Li Menggang, Liu Qiao and Tian Hongqi.

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 3rd meeting of the Eleventh Session of the Board of Directors of the Company was held at its Shekou Training Center on 23 August 2019. The meeting was presided by Li Jianhong, Chairman of the Board of Directors. 14 out of 15 eligible Directors attended the meeting in person. Leung Kam Chung, Antony (Independent Non-Executive Director) was unable to attend the meeting because of other business appointments, and entrusted Wong See Hong (Independent Non-Executive Director) to attend and exercise his voting right at the meeting. 7 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 2019.
4. The Company's 2019 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, Wang Liang, 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 the 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	3
Significant Risk Warning	3
I Company Information	4
II Summary of Accounting Data and Financial Indicators	7
III Report of the Board of Directors	9
3.1 Analysis of the Overall Operation	9
3.2 Analysis of Income Statement	9
3.3 Analysis of Balance Sheet	17
3.4 Analysis of Loan Quality	22
3.5 Analysis of Capital Adequacy Ratio	28
3.6 Results of Operating Segments	34
3.7 Other Financial Disclosures in accordance with the Regulatory Requirements	35
3.8 Business Development Strategies	36
3.9 Changes in the External Environment and Corresponding Measures	39
3.10 Business Operation	48
3.11 Risk Management	67
3.12 Profit Appropriation	75
IV Important Events	76
V Changes in Shares and Information on Shareholders	81
VI Directors, Supervisors, Senior Management, Employees, and Organisational Structure	92
VII Corporate Governance	99
Financial Statements	101

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

CBIRC: China Banking and Insurance Regulatory Commission

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

CMB Wing Lung Bank: CMB Wing Lung Bank Limited

CMB Wing Lung Group: CMB 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.

MUCFC: Merchants Union Consumer Finance Company Limited

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 for the details in relation to risk management.

Company Information

1.1 Company Profile

1.1.1 Registered company name in Chinese: 招商银行股份有限公司 (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, Liu Jianjun
Secretary of the board of directors: Liu Jianjun
Joint company secretaries: Liu Jianjun, 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: +86 755 8319 8888
Fax: +86 755 8319 5109
E-mail: cmb@cmbchina.com
Website: www.cmbchina.com
Hotline for complaints on customer service: 95555-7
Hotline for consumer rights protection: +86 755 8307 7333

1.1.5 Principal place of business in Hong Kong:
31/F, Three Exchange Square, 8 Connaught Place, Central, 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 Newspapers and websites designated 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 for 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 Representatives: Liu Wencheng, Luo Yong
China Merchants Securities Co., Ltd.
Office Address: No. 111, Fuhua 1st Road, Futian Street Committee, 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 sections headed "Distribution Channels" and "Branches and Representative Offices". The Company was listed on 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, empowered itself with Fintech fundamental capabilities and established a scientific and efficient management and organisational system. With significantly leading advantage in retail finance, distinctive feature of wholesale finance and industry-leading service quality, our professional capabilities have been recognised by the market and customers.

During the reporting period, facing the complex and ever-changing external and internal environment, the Company maintained its strategic determination, focused on the major aspects of customers and technologies, steadily pushed forward the digitalised transformation, and committed to developing itself into a “Digital Bank” and a “Bank with the Best Customer Experience”. For further details, please refer to Chapter III.

During the reporting period, the Company continued to enhance its brand reputation. On the List of Top 1,000 World Banks 2019 released by *The Banker*, a UK magazine, the Company ranked 19th in terms of Tier 1 capital, up by 1 place from 2018, and ranked in the Top 20 for two consecutive years. In the meantime, the Company was awarded the “Best Bank of China” by *Euromoney*, a UK magazine, and awarded the “Best Retail Bank in the Asia Pacific Region” by *The Asian Banker* for the second consecutive year.

Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

Operating results

	January to June 2019 (in millions of RMB)	January to June 2018	Changes +/(-)%
Net operating income ⁽¹⁾	138,338	126,103	9.70
Profit before tax	64,873	58,945	10.06
Net profit attributable to shareholders of the Bank	50,612	44,756	13.08

Per share

	January to June 2019 (RMB)	January to June 2018	Changes +/(-)%
Basic earnings attributable to ordinary shareholders of the Bank ⁽²⁾	2.01	1.77	13.56
Diluted earnings attributable to ordinary shareholders of the Bank	2.01	1.77	13.56

Volume indicators

	30 June 2019 (in millions of RMB)	31 December 2018	Changes +/(-)%
Total assets	7,193,181	6,745,729	6.63
of which: total loans and advances to customers ⁽³⁾	4,323,530	3,933,034	9.93
Total liabilities	6,619,186	6,202,124	6.72
of which: total deposits from customers ⁽³⁾	4,699,738	4,400,674	6.80
Total equity attributable to shareholders of the Bank	567,886	540,118	5.14
Period-end net assets per share attributable to the ordinary shareholders of the Bank (RMB)	21.17	20.07	5.48

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 Company 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) In accordance with the "Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018" (《關於修訂印發2018年度金融企業財務報表格式的通知》) issued by the Ministry of Finance, the interest on financial instruments accrued based on the effective interest rate method shall be included in the balance of the relevant financial instruments, and shall be reflected in the relevant items of the financial reports, and the "interest receivable" or "interest payable" item shall no longer be listed separately. The balance of "interest receivable" or "interest payable" listed in the "other assets" or "other liabilities" item is only the interest receivable or payable where the relevant financial instruments have expired but the interest has not yet been received or paid at the balance sheet date. Since the 2018 annual report, the Group has adjusted the financial statements and its accompanying notes in accordance with the above requirements. Unless otherwise stated, the balances of the relevant items herein and set out below do not include the above interest on financial instruments accrued based on the effective interest method.

2.2 Financial Ratios

	January to June 2019	January to December 2018 (%)	January to June 2018	Year-on-year changes
Profitability indicators⁽¹⁾				
Return on average assets attributable to shareholders of the Bank	1.45	1.24	1.39	Increased by 0.06 percentage point
Return on average equity attributable to ordinary shareholders of the Bank	19.47	16.57	19.61	Decreased by 0.14 percentage point
Net interest spread	2.58	2.44	2.42	Increased by 0.16 percentage point
Net interest margin	2.70	2.57	2.54	Increased by 0.16 percentage point
As percentage of net operating income				
– Net interest income	63.18	64.56	61.07	Increased by 2.11 percentage points
– Net non-interest income	36.82	35.44	38.93	Decreased by 2.11 percentage points
Cost-to-income ratio ⁽²⁾	27.58	31.04	26.85	Increased by 0.73 percentage point
	30 June 2019	31 December 2018 (%)	31 December 2017	Changes over 2018 year-end
Capital adequacy indicators under the Internally-Modelled Based Approaches⁽³⁾				
Core Tier 1 capital adequacy ratio	11.42	11.78	12.06	Decreased by 0.36 percentage point
Tier 1 capital adequacy ratio	12.19	12.62	13.02	Decreased by 0.43 percentage point
Capital adequacy ratio	15.09	15.68	15.48	Decreased by 0.59 percentage point
Equity to total assets	7.99	8.06	7.68	Decreased by 0.07 percentage point
Asset quality indicators⁽⁴⁾				
Non-performing loan ratio	1.23	1.36	1.61	Decreased by 0.13 percentage point
Allowance coverage ratio of non-performing loans	394.12	358.18	262.11	Increased by 35.94 percentage points
Allowance ratio of loans	4.85	4.88	4.22	Decreased by 0.03 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 does not include taxes and surcharges, provisions for insurance claims and the depreciation charges on fixed assets under operating lease and investment properties.

(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 Standardised Approaches were 12.60%, 10.86% and 10.17%, respectively.

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

Report of the Board of Directors

3.1 Analysis of the Overall Operation

In the first half of 2019, the Group continued to uphold its strategic direction of “Light-operation Bank” and the strategic positioning of “One Body with Two Wings”, carrying out businesses in a proactive and sound manner. Our overall operation was satisfactory, achieving the dynamic and balanced development of “Quality, Efficiency and Scale”, which was reflected mainly in the following aspects:

Earnings increased steadily. During the reporting period, the Group realised a net profit attributable to shareholders of the Bank of RMB50.612 billion, representing a year-on-year increase of 13.08%; the net interest income was RMB87.407 billion, representing a year-on-year increase of 13.50%; the net non-interest income was RMB50.931 billion, representing a year-on-year increase of 3.75%. The return on average assets (ROAA) attributable to shareholders of the Bank and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.45% and 19.47%, up by 0.06 percentage point and down by 0.14 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 RMB7,193.181 billion, representing an increase of 6.63% as compared with the end of the previous year. The total loans and advances to customers amounted to RMB4,323.530 billion, representing an increase of 9.93% as compared with the end of the previous year. Total liabilities amounted to RMB6,619.186 billion, representing an increase of 6.72% as compared with the end of the previous year. Total deposits from customers amounted to RMB4,699.738 billion, representing an increase of 6.80% as compared with the end of the previous year.

Both the balance and the proportion of 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 RMB53.221 billion, representing a decrease of RMB384 million as compared with the end of the previous year. The non-performing loan ratio was 1.23%, down by 0.13 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 394.12%, representing an increase of 35.94 percentage points as compared with the end of the previous year.

3.2 Analysis of Income Statement

3.2.1 Financial highlights

During the reporting period, the Group realised a profit before tax of RMB64.873 billion, representing a year-on-year increase of 10.06%. The effective income tax rate was 21.60%, representing a year-on-year decrease of 2.28 percentage points. The following table sets out the changes in major income/loss items of the Group during the reporting period.

	January to June 2019	January to June 2018 (in millions of RMB)	Changes
Net interest income	87,407	77,012	10,395
Net fee and commission income	38,971	37,469	1,502
Other net income	11,252	10,780	472
Operating expenses	(40,401)	(35,729)	(4,672)
Share of profits of associates and joint ventures	708	842	(134)
Expected credit losses	(33,064)	(31,429)	(1,635)
Profit before tax	64,873	58,945	5,928
Income tax expense	(14,015)	(14,076)	61
Net profit	50,858	44,869	5,989
Net profit attributable to shareholders of the Bank	50,612	44,756	5,856

3.2.2 Net operating income

During the reporting period, the net operating income of the Group was RMB138.338 billion, representing an increase of 9.70% as compared with the corresponding period of the previous year, of which the net interest income accounted for 63.18% of the net operating income and the net non-interest income accounted for 36.82% of the net operating income.

3.2.3 Interest income

During the reporting period, the Group recorded an interest income of RMB144.517 billion, representing a year-on-year increase of 10.17%, 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 RMB109.078 billion, representing a year-on-year increase of 15.91%.

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 per year (same as below).

	January to June 2019			January to June 2018		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
	(in millions of RMB, except for percentages)					
Corporate loans	1,776,755	38,739	4.40	1,729,842	36,121	4.21
Retail loans	2,124,449	66,144	6.28	1,828,601	53,730	5.93
Discounted bills	242,116	4,195	3.49	174,715	4,255	4.91
Loans and advances to customers	4,143,320	109,078	5.31	3,733,158	94,106	5.08

In the first half of 2019, from the perspective of the maturity structure of loans and advances to customers of the Company, the average balance of short-term loans was RMB1,643.571 billion with the interest income amounting to RMB50.559 billion, and the annualised average yield reached 6.20%; the average balance of medium- to long-term loans was RMB2,204.512 billion with the interest income amounting to RMB52.493 billion, and the annualised average yield reached 4.80%. 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 RMB24.246 billion, representing a year-on-year increase of 0.61%. Affected by downward market interest rates, the annualised average yield of investments was 3.69%, representing a year-on-year decrease of 11 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 RMB7.386 billion, representing a year-on-year decrease of 17.42%, and the annualised average yield of balances and placements with banks and other financial institutions was 2.63%, representing a year-on-year decrease of 44 basis points, which was mainly due to the Group's efforts towards continual optimisation of its asset structure and the reduction in the allocation of interbank assets during the period of downward market interest rates.

3.2.4 Interest expense

During the reporting period, the interest expense of the Group was RMB57.110 billion, representing a year-on-year increase of 5.44%, which was primarily attributable to the increase in the scale of interest-bearing liabilities and intensified competition in securing deposits that have pushed up cost ratio of deposits.

Interest expense on deposits from customers

During the reporting period, the Group's interest expense on deposits from customers was RMB34.113 billion, representing a year-on-year increase of 14.99%, which was primarily attributable to the increase in the size of deposits as well as the increase in cost ratios of deposits as a result of the intensified competition in securing deposits. However, the 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 2019			January to June 2018		
	Average balance	Interest expenses	Annualised average cost ratio (%) (in millions of RMB, except for percentages)	Average balance	Interest expenses	Annualised average cost ratio (%)
Deposits from corporate customers						
Demand	1,578,246	6,497	0.83	1,550,063	6,507	0.85
Time	1,294,388	17,769	2.77	1,232,905	16,533	2.70
Subtotal	2,872,634	24,266	1.70	2,782,968	23,040	1.67
Deposits from retail customers						
Demand	1,070,921	1,962	0.37	1,012,600	1,480	0.29
Time	553,001	7,885	2.88	402,614	5,147	2.58
Subtotal	1,623,922	9,847	1.22	1,415,214	6,627	0.94
Total deposits from customers	4,496,556	34,113	1.53	4,198,182	29,667	1.43

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 RMB9.679 billion, representing a year-on-year decrease of 22.18%, which was primarily due to the steady growth in proprietary deposits, further optimisation of the liability structure and the declining liabilities volumes of interbank as a result of downward market interest rates.

Interest expense on debt securities issued

During the reporting period, the interest expense on debt securities issued of the Group amounted to RMB8.177 billion, representing a year-on-year increase of 23.69%, which was primarily attributable to the increase in the size of debt securities issued.

3.2.5 Net interest income

During the reporting period, the Group's net interest income amounted to RMB87.407 billion, representing a year-on-year increase of 13.50%.

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 2019			January to December 2018			January to June 2018		
	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	4,143,320	109,078	5.31	3,825,123	196,370	5.13	3,733,158	94,106	5.08
Investments	1,325,061	24,246	3.69	1,278,915	48,267	3.77	1,279,833	24,098	3.80
Balances with the central bank	484,370	3,807	1.58	510,760	7,961	1.56	521,914	4,027	1.56
Balances and placements with banks and other financial institutions	566,310	7,386	2.63	630,169	18,313	2.91	587,170	8,944	3.07
Total	6,519,061	144,517	4.47	6,244,967	270,911	4.34	6,122,075	131,175	4.32
	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	4,496,556	34,113	1.53	4,269,523	61,987	1.45	4,198,182	29,667	1.43
Deposits and placements from banks and other financial institutions	833,267	9,679	2.34	863,041	23,028	2.67	877,510	12,438	2.86
Debt securities issued	446,214	8,177	3.70	340,151	14,530	4.27	310,083	6,611	4.30
Borrowings from the central bank	319,099	4,880	3.08	348,093	10,982	3.15	351,247	5,447	3.13
Lease liabilities ^(note)	12,873	261	4.09	/	/	/	/	/	/
Total	6,108,009	57,110	1.89	5,820,808	110,527	1.90	5,737,022	54,163	1.90
Net interest income	/	87,407	/	/	160,384	/	/	77,012	/
Net interest spread	/	/	2.58	/	/	2.44	/	/	2.42
Net interest margin	/	/	2.70	/	/	2.57	/	/	2.54

Note: The Group implemented International Financial Reporting Standard 16 Leases (the "New Lease Standard") on 1 January 2019. According to the New Lease Standard, for lease contracts, the Group recognised the lease liabilities based on the present value of the lease payments that have not been paid on the commencement date of the lease term, and subsequently calculated the interest expense of the lease liabilities in each period using the effective interest method and recognised it as interest expense, except for short-term leases and low-value leases contracts. The comparable figures for the corresponding period of the previous year were not subject to adjustment.

During the reporting period, the annualised average yield of the interest-earning assets of the Group was 4.47%, while the annualised average cost ratio of interest-bearing liabilities was 1.89%, representing a year-on-year increase of 15 basis points and decrease of 1 basis point respectively. The net interest spread was 2.58%, while the net interest margin was 2.70%, both representing a year-on-year increase of 16 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 per year), 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 rates have been included in the amount of changes in interest income and interest expenses due to changes in volume.

January to June 2019 compared to January to June 2018			
	Increase (decrease) due to Volume	Interest rate (in millions of RMB)	Net increase (decrease)
Interest-earning assets			
Loans and advances to customers	10,798	4,174	14,972
Investments	828	(680)	148
Balances with the central bank	(295)	75	(220)
Balances and placements with banks and other financial institutions	(272)	(1,286)	(1,558)
Changes in interest income	11,059	2,283	13,342
Interest-bearing liabilities			
Deposits from customers	2,264	2,182	4,446
Deposits and placements from banks and other financial institutions	(514)	(2,245)	(2,759)
Debt securities issued	2,495	(929)	1,566
Borrowings from the central bank	(492)	(75)	(567)
Lease liabilities	261	–	261
Changes in interest expense	4,014	(1,067)	2,947
Changes in net interest income	7,045	3,350	10,395

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 2019			April to June 2019		
	Average balance	Interest income (in millions of RMB, except for percentages)	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets						
Loans and advances to customers	4,067,414	53,678	5.35	4,218,393	55,400	5.27
Investments	1,300,031	11,934	3.72	1,349,815	12,312	3.66
Balances with the central bank	480,041	1,882	1.59	488,651	1,925	1.58
Balances and placements with banks and other financial institutions	630,772	4,115	2.65	502,555	3,271	2.61
Total	6,478,258	71,609	4.48	6,559,414	72,908	4.46

	January to March 2019			April to June 2019		
	Average balance	Interest expenses	Annualised average cost ratio (%) (in millions of RMB, except for percentages)	Average balance	Interest expenses	Annualised average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	4,456,186	16,637	1.51	4,536,482	17,476	1.55
Deposits and placements from banks and other financial institutions	805,263	4,680	2.36	860,963	4,999	2.33
Debt securities issued	425,419	4,091	3.90	466,780	4,086	3.51
Borrowings from the central bank	353,312	2,712	3.11	285,262	2,168	3.05
Lease liabilities	11,915	120	4.08	13,821	141	4.09
Total	6,052,095	28,240	1.89	6,163,308	28,870	1.88
Net interest income	/	43,369	/	/	44,038	/
Net interest spread	/	/	2.59	/	/	2.58
Net interest margin	/	/	2.72	/	/	2.69

Due to the relatively sufficient market liquidity in the second quarter, the market yield decreased substantially. In the second quarter of 2019, the net interest spread of the Group was 2.58%, down by 1 basis point as compared with the first quarter of 2019. Among them, the annualised average yield of the interest-earning assets was 4.46%, down by 2 basis points as compared with the first quarter of 2019 while the annualised average cost ratio of interest-bearing liabilities was 1.88%, down by 1 basis point as compared with the first quarter of 2019. The net interest margin was 2.69%, down by 3 basis points as compared with the first quarter of 2019.

3.2.6 Net non-interest income

During the reporting period, the Group recorded a net non-interest income of RMB50.931 billion, representing a year-on-year increase of 3.75%. The components are as follows:

Net fee and commission income amounted to RMB38.971 billion, representing an increase of 4.01% as compared with the corresponding period of the previous year. Among them, income from settlement and clearing fees¹ increased by RMB1.215 billion or 22.67% as compared with the corresponding period of the previous year calculated on the same statistical calibre, mainly due to the increase in income from e-payment; income from bank card fees increased by RMB1.528 billion or 18.80%, mainly due to the increase in bank card POS transaction income; income from agency services fees decreased by RMB854 million or 9.47% as compared with the corresponding period of the previous year calculated on the same statistical calibre, mainly due to the decrease in the income from agency distribution of funds; commissions from credit commitment and loan business decreased by RMB349 million or 8.84% as compared with the corresponding period of the previous year calculated on the same statistical calibre, mainly due to the decrease in fee income from the domestic factoring business and international guarantee; commissions on trust and fiduciary activities decreased by RMB154 million or 1.24% as compared with the corresponding period of the previous year, mainly due to the decrease in custodian fee income.

¹ Since the publication of 2018 annual report, the Group has adjusted the statistical calibre of the breakdown items of the fee and commission income, part of the fee related to cross-border financing business has been adjusted from "settlement and clearing fees" to "commissions from credit commitment and loan business"; the fund management fee income of the subsidiaries has been adjusted from "agency service fees" and "others" to "commissions on trust and fiduciary activities", and the securities brokerage commission income of the subsidiaries has been adjusted from "commissions on trust and fiduciary activities" to "agency service fees", and corresponding adjustments have been made to the comparative figures of the corresponding period of the previous year.

Other net non-interest income amounted to RMB11.960 billion, representing an increase of 2.91% as compared with the corresponding period of the previous year. Among them, net investment income amounted to RMB7.260 billion, representing an increase of RMB1.118 billion or 18.20% as compared with the corresponding period of the previous year, which was mainly due to the increase in trading spread income of bills and bonds; net gain from fair value changes was RMB-12 million, representing a decrease of RMB1.068 billion as compared with the corresponding period of the previous year, which was mainly due to the decrease in valuation of non-standardised bill investments, bonds and derivatives; other net income amounted to RMB2.678 billion, representing an increase of RMB655 million or 32.38% as compared with the corresponding period of the previous year, which was mainly due to increase in the income from leasing business.

Among the business segments, the net non-interest income from retail finance amounted to RMB26.160 billion, representing an increase of 7.08% as compared with the corresponding period of the previous year and accounting for 51.36% of the Group's net non-interest income; the net non-interest income from wholesale finance amounted to RMB18.098 billion, representing a decrease of 6.88% as compared with the corresponding period of the previous year and accounting for 35.54% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB6.673 billion, representing an increase of 27.74% as compared with the corresponding period of the previous year and accounting for 13.10% of the Group's net non-interest income.

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.

The following table sets forth, for the periods indicated, the principal components of net non-interest income of the Group.

	January to June 2019 (in millions of RMB)	January to June 2018
Fee and commission income	42,512	40,398
Bank card fees	9,654	8,126
Settlement and clearing fees	6,574	5,359
Agency service fees	8,168	9,022
Commissions from credit commitment and loan business	3,601	3,950
Commissions on trust and fiduciary activities	12,278	12,432
Others	2,237	1,509
Less: fees and commission expense	(3,541)	(2,929)
Net fee and commission income	38,971	37,469
Other net non-interest income	11,960	11,622
Other net income	11,252	10,780
Net gains from fair value changes	(12)	1,056
Net investment income	7,260	6,142
Exchange gain	1,326	1,559
Other net income	2,678	2,023
Share of profits of associates and joint ventures	708	842
Total net non-interest income	50,931	49,091

3.2.7 Operating expenses

During the reporting period, the Group's operating expenses amounted to RMB40.401 billion, representing a year-on-year increase of 13.08%, among which, staff costs of the Group increased by 14.18% and other general and administrative expenses increased by 12.90% as compared with the corresponding period of the previous year. The increase in operating expenses was primarily due to the fact that the Group implemented the transformation of 3.0 digital business model, promoted the Fintech strategy, increased the number of customers and improved management and service capability, and further increased the special expenditures for digital outlets construction, operation of two major APPs and various Fintech innovations, as well as investing in IT hardware and software and human resources for research and development. During the reporting period, the Group's cost-to-income ratio was 27.58%, representing a year-on-year increase of 0.73 percentage point. The Company's cost-to-income ratio was 27.81%, representing a year-on-year increase of 1.06 percentage points.

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

	January to June 2019 (in millions of RMB)	January to June 2018
Staff costs	24,575	21,523
Taxes and surcharges	1,143	987
Depreciation of fixed assets and investment properties	2,924	2,503
Amortisation of intangible assets	465	472
Depreciation and amortisation of right-of-use assets ^(Note)	2,154	N/A
Rental expenses	N/A	2,144
Other general and administrative expenses	9,023	7,992
Allowances for insurance claims	117	108
Total	40,401	35,729

Note: The Group has implemented the New Lease Standard since 1 January 2019. Depreciation and amortisation expenses should be accrued for the right-of-use assets recognised under the New Lease Standard. For short-term lease and low-value lease contracts, the expenses shall be directly recognised in the current period.

3.2.8 Expected credit losses

During the reporting period, expected credit losses of the Group were RMB33.064 billion, representing a year-on-year increase of 5.20%. The following table sets forth, for the periods indicated, the principal components of expected credit losses of the Group.

	January to June 2019 (in millions of RMB)	January to June 2018
Loans and advances to customers	29,512	30,378
Financial investments	1,737	1,259
Amounts due from banks and other financial institutions	(194)	(106)
Expected credit losses relating to financial guarantees and loan commitments	1,740	(166)
Other assets	269	64
Total expected credit losses	33,064	31,429

Expected credit losses of loans and advances to customers were the largest component of expected credit losses. During the reporting period, expected credit losses of loans and advances to customers were RMB29.512 billion, representing a year-on-year decrease of 2.85%. 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 RMB7,193.181 billion, up by 6.63% from the end of the previous year, which was mainly attributable to the increase in loans and advances to customers of the Group.

To maintain the figures comparable, the financial instruments in section “3.3.1 Assets” were still analysed on the statistical calibre excluding interest receivable, except for the table “components of the total assets of the Group”, in which interest receivable calculated using the effective interest method was included as required by the Ministry of Finance.

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

	30 June 2019		31 December 2018	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
(in millions of RMB, except for percentages)				
Total loans and advances to customers	4,332,823	60.24	3,941,844	58.43
Allowances for impairment losses on loans ⁽¹⁾	(209,772)	(2.92)	(191,895)	(2.84)
Net loans and advances to customers	4,123,051	57.32	3,749,949	55.59
Investment securities and other financial assets	1,747,704	24.30	1,714,490	25.42
Cash, precious metals and balances with the central bank	553,194	7.69	500,020	7.41
Balances and placements with banks and other financial institutions and amounts held under resale agreements	556,853	7.74	612,957	9.08
Goodwill	9,954	0.14	9,954	0.15
Other assets ⁽²⁾	202,425	2.81	158,359	2.35
Total assets	7,193,181	100.00	6,745,729	100.00

Notes: (1) The “allowances for impairment losses on loans” as at the end of the period included the allowances for impairment losses on loans and advances to customers measured at amortised cost and the allowances for impairment losses on interest receivable from loans and advances to customers measured at amortised cost. The allowances for impairment losses of RMB145 million were not deducted from the carrying values of the loans and advances to customers measured at fair value through other comprehensive income. For details, please refer to Note 16(a) to the financial statements.

(2) Including fixed assets, the right-of-use 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 RMB4,323.530 billion (excluding interest receivable), representing an increase of 9.93% as compared with the end of the previous year; total loans and advances to customers accounted for 60.11% of the total assets, representing an increase of 1.81 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 the section headed “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.

The following table sets forth the components of investment securities and other financial assets of the Group by line items.

	30 June 2019		31 December 2018	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
(in millions of RMB, except for percentages)				
Derivative financial assets	27,533	1.60	34,220	2.02
Investments at fair value through profit or loss	341,560	19.78	327,643	19.36
– Bonds	126,755	7.34	132,849	7.85
– Non-standardised credit assets	170,046	9.85	173,988	10.28
– Others ^(Note)	44,759	2.59	20,806	1.23
Debt investments at amortised cost	912,572	52.86	903,268	53.36
– Bonds	742,311	43.00	657,926	38.87
– Non-standardised credit assets	178,770	10.35	252,884	14.94
– Others	551	0.03	538	0.03
– Less: allowances for impairment losses	(9,060)	(0.52)	(8,080)	(0.48)
Debt investments at fair value through other comprehensive income	429,382	24.87	414,691	24.50
Equity investments designated at fair value through other comprehensive income	5,763	0.33	4,015	0.24
Investments in joint ventures and associates	9,685	0.56	8,871	0.52
Total investment securities and other financial assets	1,726,495	100.00	1,692,708	100.00

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

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 in the following table. For details, please refer to Note 41(f) to the financial statements.

	30 June 2019			31 December 2018		
	Notional amount	Fair value Assets	Liabilities	Notional amount	Fair value Assets	Liabilities
(in millions of RMB)						
Interest rate derivatives	4,537,578	14,006	(13,713)	4,382,713	16,150	(14,812)
Currency derivatives	1,510,306	12,914	(16,499)	1,605,849	17,630	(21,321)
Other derivatives	119,413	613	(602)	116,624	440	(437)
Total	6,167,297	27,533	(30,814)	6,105,186	34,220	(36,570)

The above table shows the nominal value and fair value of the Group's derivatives by their remaining maturity on each balance sheet date. The nominal value refers only to the amounts of the transactions that have not yet been due or completed on the balance sheet date, and does not represent the value at risk.

During the reporting period, the RMB exchange rate was affected by external events, bilateral volatility increased, and customers' awareness of avoiding the risk of price fluctuations of various financial assets were heightened. The Group continued to leverage on the professional advantages of derivative transactions in the financial market and proactively used derivatives to hedge market risks, yielding a relatively rapid growth in the number of customers served and the volume of transactions.

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 RMB341.560 billion, representing an increase of 4.25% as compared with the end of the previous year. The main categories were bond investments and non-standardised bill investments. Bond investments were 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, the Group adopted an aggressive trading strategy through comprehensive market research, and increased the investment in bonds with high credit ratings as well as long-duration interest bearing bonds with outstanding relative value. The overall duration of portfolio and size increased significantly as compared with that at the end of the previous year. Meanwhile, the Group actively used interest rate swaps and other derivatives trading tools to hedge risks with the view of further enhancing income portfolio. During the reporting period, non-standardised credit asset investments of bills, on one hand, was made strictly following the New Regulation on Asset Management and the relevant arrangement of its transitional period, carrying out the investment business in an orderly manner. On the other hand, in combination with the changes in the interest rate of the bill market, the asset structure was finely adjusted to reduce the market value fluctuations while increasing the book income whenever possible. Please refer to Note 17(a) of the financial report for details.

Debt investments at amortised cost

As at the end of the reporting period, the balance of the Group's debt investments at amortised cost amounted to RMB912.572 billion, representing an increase of 1.03% as compared with the end of the previous year. Among them, 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, liquidity management and stable income stream. For details, please refer to Note 17(b) to the financial statements.

Debt investments at fair value through other comprehensive income

As at the end of the reporting period, the balance of debt investments at fair value through other comprehensive income of the Group amounted to RMB429.382 billion, representing an increase of 3.54% as compared with the end of the previous year. Such investments were made mainly for the need of the Group to improve business performance. During the reporting period, with the fluctuating interest rate of the RMB bond market, the Group closely monitored changes and timely extended the duration of portfolio based on the fluctuations of interest rates, maintaining the duration of portfolio at a high level, while at the same time focusing on increasing treasury bonds, local bonds and other interest rate-related assets with a higher allocation value, optimising the asset allocation structure and effectively avoiding credit risks. For details, please refer to Note 17(c) to the financial statements.

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

	30 June 2019	31 December 2018
	(in millions of RMB)	
Official authorities ^(note)	738,697	641,102
Policy banks	315,585	291,041
Commercial banks and other financial institutions	144,007	174,934
Others ^(note)	100,159	98,389
Total Bond investments	1,298,448	1,205,466

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

Equity investments designated at fair value through other comprehensive income

As at the end of the reporting period, the balance of the Group's equity investments designated at fair value through other comprehensive income was RMB5.763 billion, representing an increase of 43.54% as compared with the end of the previous year, which was mainly due to the increase in the valuation of incremental investment and existing investment. 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(d) of the financial statements.

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 RMB9.685 billion, representing an increase of 9.18% as compared with the end of the previous year, which was mainly attributable to the increased investment income in joint ventures. 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 RMB6,619.186 billion, representing an increase of 6.72% as compared with the end of the previous year, which was primarily attributable to the steady growth in deposits from customers.

To maintain the figures comparable, the financial instruments in section "3.3.2 Liabilities" were still analysed on the statistical calibre excluding interest payable, except for the table "components of the total liabilities of the Group" in which interest payable calculated using the effective interest method was included as required by the Ministry of Finance.

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

	30 June 2019		31 December 2018	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Deposits from customers	4,727,134	71.42	4,427,566	71.39
Deposits and placements from banks and other financial institutions and amounts sold under repurchase agreements	818,155	12.36	752,917	12.14
Borrowings from the central bank	334,509	5.05	405,314	6.54
Financial liabilities at fair value through profit or loss	43,127	0.65	44,144	0.71
Derivative financial liabilities	30,814	0.47	36,570	0.59
Debt securities issued	501,902	7.58	424,926	6.85
Others ^(note)	163,545	2.47	110,687	1.78
Total liabilities	6,619,186	100.00	6,202,124	100.00

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

Deposits from customers

As at the end of the reporting period, total deposits from customers of the Group amounted to RMB4,699.738 billion (excluding interest payable), representing an increase of 6.80% as compared with the end of the previous year. Deposits from customers, accounting for 71.00% 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 2019		31 December 2018	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Deposits from corporate customers^(note)				
Demand	1,695,441	36.07	1,645,684	37.39
Time	1,333,140	28.37	1,192,037	27.09
Subtotal	3,028,581	64.44	2,837,721	64.48
Deposits from retail customers				
Demand	1,078,895	22.96	1,059,923	24.09
Time	592,262	12.60	503,030	11.43
Subtotal	1,671,157	35.56	1,562,953	35.52
Total deposits from customers	4,699,738	100.00	4,400,674	100.00

Note: The Group optimised some of the deposits calculation rules during the period, and corresponding adjustments were made to the comparative figures of the end of 2018.

During the reporting period, the percentage of the daily average balance per year of demand deposits to the daily average balance per year of deposits from customers of the Group was 58.92%, representing a decrease of 1.72 percentage points as compared with the previous year. Among which, the daily average balance per year of demand deposits from corporate customers accounted for 54.94% of the daily average balance per year of corporate deposits, representing a decrease of 0.72 percentage point as compared with the previous year, and the daily average balance per year of demand deposits from retail customers accounted for 65.95% of the daily average balance per year of retail deposits, representing a decrease of 4.19 percentage points as compared with the previous year.

3.3.3 Shareholders' equity

As at the end of the reporting period, the shareholders' equity of the Group was RMB573.995 billion, representing an increase of 5.59% as compared with the end of the previous year. Among which, retained profits amounted to RMB300.173 billion, representing an increase of 9.41% as compared with the end of the previous year. Investment revaluation reserve amounted to RMB6.487 billion, representing an increase of 17.26% as compared with the end of the previous year, which was mainly due to an increase in the valuation of the equity investments designated at fair value through other comprehensive income.

3.4 Analysis of Loan Quality

During the reporting period, the Group saw a steady growth in the volume of loans, and a continued optimisation in asset quality with a decrease in both balance and proportion of non-performing loans. The allowance coverage ratio remained solid, and our risk loss endurance capability was further improved. As at the end of the reporting period, the balance of non-performing loans of the Group amounted to RMB53.221 billion, representing a decrease of RMB384 million as compared with the end of the previous year; the non-performing loan ratio was 1.23%, down by 0.13 percentage point from the end of the previous year; the non-performing loan allowance coverage ratio was 394.12%, representing an increase of 35.94 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.85%, representing a decrease of 0.03 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 2019		31 December 2018	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
(in millions of RMB, except for percentages)				
Normal	4,213,998	97.47	3,820,100	97.13
Special-mentioned	56,311	1.30	59,329	1.51
Substandard	17,264	0.40	13,526	0.34
Doubtful	23,186	0.54	25,041	0.64
Loss	12,771	0.29	15,038	0.38
Total loans and advances to customers	4,323,530	100.00	3,933,034	100.00
Total non-performing loans	53,221	1.23	53,605	1.36

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. During the reporting period, the 5-tier loan classification system of the Group was further optimised, the amount and ratio of non-performing loans both decreased. The special-mentioned loans amounted to RMB56.311 billion as at the end of the reporting period, representing a decrease of RMB3.018 billion as compared with the end of the previous year. The proportion of special-mentioned loans was 1.30%, down by 0.21 percentage point from the end of the previous year.

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

	30 June 2019				31 December 2018			
	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	1,833,884	42.42	36,613	2.00	1,773,929	45.10	37,758	2.13
Working capital loans	903,385	20.90	25,571	2.83	884,660	22.49	25,698	2.90
Fixed asset loans	502,646	11.63	4,907	0.98	470,521	11.97	5,067	1.08
Trade finance	160,483	3.71	1,750	1.09	157,093	3.99	2,465	1.57
Others ⁽²⁾	267,370	6.18	4,385	1.64	261,655	6.65	4,528	1.73
Discounted bills ⁽³⁾	250,589	5.79	–	–	149,766	3.81	–	–
Retail loans	2,239,057	51.79	16,608	0.74	2,009,339	51.09	15,847	0.79
Micro-finance loans	383,357	8.87	3,460	0.90	350,534	8.91	4,682	1.34
Residential mortgage loans	1,035,609	23.95	2,564	0.25	928,760	23.62	2,610	0.28
Credit card loans	652,635	15.09	8,496	1.30	575,490	14.63	6,392	1.11
Others ⁽⁴⁾	167,456	3.88	2,088	1.25	154,555	3.93	2,163	1.40
Total loans and advances to customers	4,323,530	100.00	53,221	1.23	3,933,034	100.00	53,605	1.36

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 2019, the Group actively expanded its retail credit business and steadily developed the businesses of credit card loans, residential mortgage loans for self-occupation housing and actively supported the private micro-finance loans. The proportion of retail loans increased and the asset quality was stable and controllable. As at the end of the reporting period, the proportion of retail loans increased by 0.70 percentage point to 51.79%; the non-performing retail loans amounted to RMB16.608 billion, up by RMB761 million as compared with the end of the previous year; and the non-performing retail loan ratio was 0.74%, down by 0.05 percentage point as compared with the end of the previous year. Among which, affected by the external factors such as the risk of “joint debts”, the non-performing credit card loan ratio was 1.30%, up by 0.19 percentage point as compared with the end of the previous year.

As at the end of the reporting period, the proportion of corporate loans of the Group decreased by 2.68 percentage points to 42.42%, and the non-performing corporate loan ratio was 2.00%, representing a decrease of 0.13 percentage point as compared with the end of the previous year. Among them, the amount and ratio of all kinds of non-performing corporate loans both decreased.

3.4.3 Distribution of loans and non-performing loans by industry

	30 June 2019				31 December 2018			
	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	1,833,884	42.42	36,613	2.00	1,773,929	45.10	37,758	2.13
Property development	341,615	7.90	1,649	0.48	316,490	8.05	3,263	1.03
Transportation, storage and postal services	303,638	7.02	2,430	0.80	287,027	7.30	1,674	0.58
Manufacturing	263,594	6.10	17,319	6.57	282,543	7.18	18,760	6.64
Wholesale and retail	168,748	3.90	4,590	2.72	170,489	4.33	6,867	4.03
Production and supply of electric power, heat, gas and water	148,305	3.43	1,170	0.79	146,662	3.73	827	0.56
Leasing and commercial services	145,516	3.37	4,146	2.85	126,095	3.21	576	0.46
Finance	114,947	2.66	96	0.08	114,137	2.90	3	–
Construction	94,498	2.18	1,256	1.33	90,110	2.29	1,080	1.20
Information transmission, software and IT service	66,130	1.53	724	1.09	70,012	1.78	710	1.01
Water conservancy, environment and public utilities	53,866	1.25	266	0.49	55,916	1.42	294	0.53
Mining	40,095	0.93	2,246	5.60	37,545	0.95	3,019	8.04
Others ⁽²⁾	92,932	2.15	721	0.78	76,903	1.96	685	0.89
Discounted bills	250,589	5.79	–	–	149,766	3.81	–	–
Retail loans	2,239,057	51.79	16,608	0.74	2,009,339	51.09	15,847	0.79
Total loans and advances to customers	4,323,530	100.00	53,221	1.23	3,933,034	100.00	53,605	1.36

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.

In the first half of 2019, the Group followed the key national strategic plans, continued to support the development of the real economy, constantly optimised its credit structure, and expanded credit supply in new growth engine industries such as strategic emerging industries, advanced manufacturing industries and modern service industries. According to national macro-industrial policies, the Group dynamically adjusted the credit strategy for key areas such as industries from which our loans should be reduced and recovered, the real estate industry and local government financing platforms. The Group accelerated the reduction and withdrawal of loans granted to customers with high risks such as customers with high leveraging level, “zombie enterprises”, customers associated with overcapacity and low operating efficiency. During the reporting period, affected by the factors such as the macroeconomic downturn and the formation of non-performing loans in certain large-sized corporate customers, the non-performing loan ratio related to some industries, including leasing and commercial services, production and supply of electric power, heat, gas and water, transportation, storage and postal services increased.

3.4.4 Distribution of loans and non-performing loans by region

	30 June 2019				31 December 2018			
	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)								
Head Office ⁽²⁾	726,053	16.79	10,582	1.46	650,128	16.53	6,567	1.01
Yangtze River Delta	865,252	20.02	8,320	0.96	793,637	20.18	10,334	1.30
Bohai Rim	552,006	12.77	7,635	1.38	503,588	12.80	8,708	1.73
Pearl River Delta and West Side of Taiwan Strait	733,449	16.96	7,334	1.00	667,011	16.96	7,009	1.05
North-eastern China	150,070	3.47	5,115	3.41	146,198	3.72	5,583	3.82
Central China	436,826	10.10	3,589	0.82	384,094	9.77	5,005	1.30
Western China	414,045	9.58	8,213	1.98	380,675	9.68	7,975	2.09
Overseas	133,628	3.09	414	0.31	123,337	3.13	456	0.37
Subsidiaries	312,201	7.22	2,019	0.65	284,366	7.23	1,968	0.69
Total loans and advances to customers	4,323,530	100.00	53,221	1.23	3,933,034	100.00	53,605	1.36

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

(2) The Head Office includes Credit Card Center, Offshore Finance Center and Banking Department of the Head Office.

Given the differences in economic patterns and customer bases of various regions, the Group implemented differentiated risk supervisory management by category for branches and sub-branches in different regions. 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 Central China and extended by the Head Office showed an increase, while the percentages of the balance of loans extended to North-eastern China, the Yangtze River Delta, Western China, overseas, Bohai Rim and subsidiaries recorded decreases. Due to the formation of non-performing loans in certain large-sized corporate customers and the increase of non-performing credit card loans, the non-performing loan ratio of Head Office increased by 0.45 percentage point as compared with the end of the previous year, while the non-performing loan ratio of other regions decreased as compared with the end of the previous year.

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

	30 June 2019				31 December 2018			
	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	1,446,489	33.46	12,938	0.89	1,320,545	33.57	9,752	0.74
Guaranteed loans	474,248	10.97	17,231	3.63	441,212	11.22	20,332	4.61
Collateralised loans	1,782,993	41.23	15,722	0.88	1,653,517	42.04	20,769	1.26
Pledged loans	369,211	8.54	7,330	1.99	367,994	9.36	2,752	0.75
Discounted bills	250,589	5.80	–	–	149,766	3.81	–	–
Total loans and advances to customers	4,323,530	100.00	53,221	1.23	3,933,034	100.00	53,605	1.36

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 6.47% as compared with the end of the previous year. Guaranteed loans increased by 7.49% as compared with the end of the previous year, and the credit loans increased by 9.54% as compared with the end of the previous year. The non-performing pledged loan ratio increased by 1.24 percentage points as compared with the end of the previous year due to the formation of non-performing loans in certain large customers. The non-performing credit loan ratio increased by 0.15 percentage point as compared with the end of the previous year; while the ratio of non-performing guaranteed loans and collateralised loans both decreased.

3.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan balance as at 30 June 2019 (in millions of RMB)	Percentage of net capital (under the Internally-Modelled Based Approaches) (%)	Percentage of total loans (%)
A	Transportation, storage and postal services	27,600	4.14	0.64
B	Manufacturing	13,600	2.04	0.31
C	Property development	12,570	1.88	0.29
D	Property development	11,106	1.67	0.26
E	Production and supply of electric power, heat, gas and water	8,654	1.30	0.20
F	Transportation, storage and postal services	8,309	1.25	0.19
G	Finance	8,210	1.23	0.19
H	Mining	7,996	1.20	0.18
I	Property development	7,570	1.13	0.18
J	Property development	7,375	1.10	0.17
Total		112,990	16.94	2.61

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB27.600 billion, representing 4.14% of the Group's net capital under the Internally-Modelled Based Approaches. The loan balance of the top ten single borrowers totalled RMB112.990 billion, representing 16.94% of the Group's net capital under the Internally-Modelled Based Approaches, 18.06% of the Group's net capital under the Standardised Approaches, and 2.61% of the Group's total loan balance, respectively.

3.4.7 Distribution of loans by overdue term

	30 June 2019		31 December 2018	
	Loan balance	Percentage of total loans (%)	Loan balance	Percentage of total loans (%)
(in millions of RMB, except for percentages)				
Overdue within 3 months	24,459	0.57	19,731	0.50
Overdue from 3 months up to 1 year	20,513	0.47	16,447	0.42
Overdue from 1 year up to 3 years	15,934	0.37	19,130	0.49
Overdue more than 3 years	6,328	0.15	6,695	0.17
Total overdue loans	67,234	1.56	62,003	1.58
Total loans and advances to customers	4,323,530	100.00	3,933,034	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB67.234 billion, up by RMB5.231 billion from the end of the previous year and accounted for 1.56% of its total loans, representing a decrease of 0.02 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 38.62%; guaranteed loans accounted for 27.86%; credit loans accounted for 33.52% (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 2019		31 December 2018	
	Loan balance	Percentage of total loans (%)	Loan balance	Percentage of total loans (%)
(in millions of RMB, except for percentages)				
Restructured loans ^(note)	24,727	0.57	22,766	0.58
Of which: restructured loans overdue more than 90 days	16,576	0.38	16,218	0.41

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 0.57%, down by 0.01 percentage point as compared with the end of the previous year.

3.4.9 Repossessed assets and impairment allowances

As at the end of the reporting period, the balance of repossessed assets (other than financial instruments) of the Group amounted to RMB827 million. After deducting the impairment allowances of RMB179 million, the net carrying value amounted to RMB648 million. The balance of repossessed financial instruments amounted to RMB1,568 million.

3.4.10 Changes in the allowances for impairment losses on loans

The Group adopted the new financial instrument standard to make adequate allowances for credit risk losses by using the expected credit loss model and the risk quantification parameters such as the probability of customer defaults and the loss ratio of defaults, after taking into consideration the adjustments in macro perspectiveness.

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

	January to June 2019 (in millions of RMB)	2018
Balance as at the beginning of the year	192,000	151,520
Charge/release for the period	29,512	59,252
Unwinding of discount on impaired loans and advances ^(note)	(165)	(307)
Recovery of loans and advances previously written off	4,468	7,453
Write-offs/disposal for the period	(16,126)	(26,197)
Foreign exchange rate movements	68	279
Balance at the end of the period	209,757	192,000

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 RMB209.757 billion, representing an increase of RMB17.757 billion as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 394.12%, representing an increase of 35.94 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.85%, representing a decrease of 0.03 percentage point as compared with the end of the previous year.

3.5 Analysis of Capital Adequacy Ratio

Capital regulatory requirements

The Group continued to optimise its business structure and enhance capital management. During the reporting period, the Group satisfied various capital requirements of the CBIRC. During the reporting period, the capital requirement provided by the CBIRC to the Group and the Company was that: the minimum requirement for each of capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio was 8%, 6% and 5% respectively. The Group further made provision for the reserve capital, the counter-cyclical capital and supplementary capital based on the above mentioned minimum capital requirements. Among them, the requirements for reserve capital, counter-cyclical capital and supplementary capital were 2.5%, 0% and 0% respectively, which represented that the capital adequacy ratio, the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Group and the Company during the reporting period should not be lower than 10.5%, 8.5% and 7.5% respectively.

Scope for calculating capital adequacy ratio

The scope for calculating the Group's capital adequacy ratio includes China Merchants Bank and the financial institutions in which the Company has direct or indirect investments in compliance with the requirements of the "Capital Rules for Commercial Banks (Provisional)". 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 that were within the scope of consolidated statements in respect of the capital adequacy ratio included: CMB Wing Lung Bank, CMB International Capital, CMB Financial Leasing and China Merchants Fund.

According to the regulatory requirements, the Group includes neither the industrial and commercial enterprises, nor the companies of the insurance type to the consolidated calculation scope of the capital adequacy ratios. Different types of investees are given different treatments while calculating the consolidated capital adequacy ratios.

No.	Type of investee	Treatment
1	Financial institutions with majority voting rights or controlling interest (excluding insurance companies)	Included in the calculation of consolidated capital adequacy ratio
2	Insurance companies with majority voting rights or controlling interest	Excluded from the calculation of consolidated capital adequacy ratio, deducted corresponding capital investment from capital at all tiers; deducted the corresponding capital shortfall, if any.
3	Significant minority investments in capital instruments issued by financial institutions	Excluded from the calculation of consolidated capital adequacy ratio, deducted the part of core Tier 1 capital investments exceeding 10% of the Company's net core Tier 1 capital and deducted all of additional Tier 1 and Tier 2 capital investments from corresponding tiers of capital. The part failing to reach the deduction threshold shall be calculated as risk-weighted assets.
4	Non-significant minority investments in capital instruments issued by financial institutions	Excluded from the calculation of consolidated capital adequacy ratio and correspondingly deducted the part of total investments exceeding 10% of the Company's net core Tier 1 capital from regulatory capital at all tiers. The part failing to reach the deduction threshold shall be calculated as risk-weighted assets.
5	Investments in the equity of industrial and commercial enterprises	Excluded from the calculation of consolidated capital adequacy ratio and calculated as risk-weighted assets.

As at the end of the reporting period, there was no regulatory capital deficiency in the financial institutions in which the majority or controlling interests are held by the Company as measured in accordance with local regulatory requirements. During the reporting period, there was no material restriction on the capital transfer within the Group.

Information on 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 Internally-Modelled Based Approaches were 15.09%, 12.19% and 11.42%, respectively, representing an increase of 2.49 percentage points, 1.33 percentage points and 1.25 percentage points respectively as compared with those under the Standardised Approaches.

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	30 June 2019	31 December 2018	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 Internally-Modelled Based Approaches⁽¹⁾			
Net core Tier 1 capital	504,913	482,340	4.68
Net Tier 1 capital	539,007	516,433	4.37
Net capital	667,028	641,881	3.92
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	3,690,186	3,530,424	4.53
Of which: Credit risk weighted assets	3,208,201	3,052,636	5.10
Market risk weighted assets	70,103	65,906	6.37
Operational risk weighted assets	411,882	411,882	–
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	4,420,489	4,092,890	8.00
Core Tier 1 capital adequacy ratio	11.42%	11.78%	decreased by 0.36 percentage point
Tier 1 capital adequacy ratio	12.19%	12.62%	decreased by 0.43 percentage point
Capital adequacy ratio	15.09%	15.68%	decreased by 0.59 percentage point
Information on leverage ratio⁽²⁾			
Adjusted balance of on- and off-balance sheet assets	8,387,375	7,812,054	7.36
Leverage ratio	6.43%	6.61%	decreased by 0.18 percentage point

Notes: (1) The “Internally-Modelled Based Approaches” 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). During the parallel run period when the Internally-Modelled Based Approaches for capital measurement is 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 required and reserve capital required, 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 parallel run period. 2019 is the fifth year since the implementation of the parallel run 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 6.82%, 6.61% and 6.56% respectively as at the end of the first quarter of 2019, the end of 2018 and the end of the third quarter of 2018.

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 Internally-Modelled Based Approaches were 14.92%, 11.83% and 11.04%, respectively, representing an increase of 2.70 percentage points, 1.42 percentage points and 1.32 percentage points respectively as compared with those under the Standardised Approaches.

The Company	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)		
	30 June 2019	31 December 2018	
(in millions of RMB, except for percentages)			
Capital adequacy ratios under the Internally-Modelled Based Approaches			
Net core Tier 1 capital	440,761	420,996	4.69
Net Tier 1 capital	472,214	452,449	4.37
Net capital	595,374	573,466	3.82
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	3,255,251	3,142,192	3.60
Of which: Credit risk weighted assets	2,819,126	2,698,166	4.48
Market risk weighted assets	52,371	60,272	(13.11)
Operational risk weighted assets	383,754	383,754	–
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	3,991,705	3,694,893	8.03
Core Tier 1 capital adequacy ratio	11.04%	11.39%	decreased by 0.35 percentage point
Tier 1 capital adequacy ratio	11.83%	12.25%	decreased by 0.42 percentage point
Capital adequacy ratio	14.92%	15.52%	decreased by 0.60 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 Standardised Approaches were 12.60%, 10.86% and 10.17% respectively, representing a decrease of 0.46 percentage point, 0.18 percentage point and 0.14 percentage point, respectively as compared with those at the end of the previous year.

The Group	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)		
	30 June 2019	31 December 2018	
(in millions of RMB, except for percentages)			
Capital adequacy ratios under the Standardised Approaches^(note)			
Net core Tier 1 capital	504,913	482,340	4.68
Net Tier 1 capital	539,007	516,433	4.37
Net capital	625,711	611,025	2.40
Risk-weighted assets	4,964,014	4,677,967	6.11
Core Tier 1 capital adequacy ratio	10.17%	10.31%	decreased by 0.14 percentage point
Tier 1 capital adequacy ratio	10.86%	11.04%	decreased by 0.18 percentage point
Capital adequacy ratio	12.60%	13.06%	decreased by 0.46 percentage point

Note: The “Standardised Approaches” refers to the Standardised Approaches 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 Standardised Approaches were 12.22%, 10.41% and 9.72% respectively, representing a decrease of 0.44 percentage point, 0.14 percentage point and 0.10 percentage point, respectively as compared with those at the end of the previous year.

The Company			Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	30 June 2019	31 December 2018	
(in millions of RMB, except for percentages)			
Capital adequacy ratios under the Standardised Approaches			
Net core Tier 1 capital	440,761	420,996	4.69
Net Tier 1 capital	472,214	452,449	4.37
Net capital	554,057	542,610	2.11
Risk-weighted assets	4,535,772	4,286,653	5.81
Core Tier 1 capital adequacy ratio	9.72%	9.82%	decreased by 0.10 percentage point
Tier 1 capital adequacy ratio	10.41%	10.55%	decreased by 0.14 percentage point
Capital adequacy ratio	12.22%	12.66%	decreased by 0.44 percentage point

Balance of credit risk exposures

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

Type of risk exposure		Legal person (in millions of RMB)	Group
Portion covered by the IRB approach			
	Financial institution	1,455,712	1,455,712
	Corporate	1,830,624	1,830,624
	Retail	2,818,071	2,818,071
	Of which: Residential mortgage exposures	1,050,392	1,050,392
	Qualified revolving retail	1,317,621	1,317,621
	Other retail	450,058	450,058
Portion not covered by the IRB approach			
	On-balance sheet	2,320,331	2,756,170
	Off-balance sheet	131,462	142,171
	Counterparty	11,079	12,419

Information on credit risk mitigation

The Group generally transfers or lowers credit risk through collaterals and guarantees. As at the end of the reporting period, the risk exposures covered by eligible risk mitigation instruments are as follows.

Type of risk exposure	Eligible financial collaterals	Other eligible collaterals (in millions of RMB)	Eligible guarantees and credit derivative instruments	Others
On-balance sheet credit risk	140,554	100,310	453,065	—
Off-balance sheet credit risk	55,702	8,266	89,960	—
Counterparty credit risk	4,000	—	—	—

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 requirement of the Company, and uses the standardised approach to calculate the general market risk capital requirement of subsidiaries as well as the specific market risk capital requirement of the Group.

As at the end of the reporting period, the market risk capital requirement of the Group was RMB5.608 billion. Of which, the general market risk capital requirement calculated under the internal model approach was RMB3.002 billion, and the market risk capital requirement calculated under the standardised approach was RMB2.606 billion. The market risk weighted assets were RMB70.103 billion.

The Group adopted historical simulation method to measure market risk value. The characteristics of this method include: calculating by revaluation of all historical quantities with high accuracy; the historical scenarios used covering the market changes in the past decade in a prudent and steady way; summarising and reflecting the overall market risk exposures clearly and directly; embedded in daily risk monitoring to effectively carry out risk management and control. The Group's stress testing includes more than 20 multi-factor stress scenarios, involving interest rate, exchange rate, volatility, credit, equity interest and products, which may accurately reflect the tail risk and make up for the shortcomings of the measurement model of market risk value. At present, the stress testing is being conducted smoothly every day. In the first half of 2019, no non-compliant occurred in the Group's market risk back-testing.

The Group's market risk capital requirement 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.

Item	Distressed risk value during the reporting period (in millions of RMB)	General risk value during the reporting period
Average value	704	191
Maximum value	1,001	247
Minimum value	537	133
Value at the end of the period	621	235

Operational risk capital measurement

The Group uses the standardised approach to calculate its operational risk capital requirements. By implementing the standardised approach, the Group preliminarily established a complete operational risk management framework, which enabled us to identify, evaluate, monitor, measure, control and mitigate all kinds of operational risks in a regular and systematic manner, and helped the Group to dynamically control the overall circumstance and the development of operational risks of the Group. Furthermore, the Group enhanced its risk resisting capabilities through adopting control measures and making provision for economic capital. As at the end of the reporting period, the operational risk capital requirement of the Group was RMB32.951 billion and the operational risk weighted assets were RMB411.882 billion.

Asset securitisation risk exposure

The Group uses the standardised approach to calculate its capital requirements of asset securitisation risk exposures. Risk weight is determined according to the credit ratings of eligible external rating institutions and the type of asset securitisation. As at the end of the reporting period, the capital requirement of asset securitisation risk exposure of the Group was RMB1.207 billion and the risk-weighted assets were RMB15.086 billion. As at the end of the reporting period, the balance of the asset securitisation risk exposures of the Group was as follows.

	Traditional (in millions of RMB)	Synthetic
Item		
Balance of on-balance sheet asset securitisation risk exposures	8,152	–
Balance of off-balance sheet asset securitisation risk exposures	296	–

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 2019		January to June 2018	
	Profit before tax	Net operating income (in millions of RMB)	Profit before tax	Net operating income
Item				
Wholesale finance	23,150	56,240	23,965	58,002
Retail finance	38,820	75,348	32,090	62,910
Other businesses	2,903	6,750	2,890	5,191
Total	64,873	138,338	58,945	126,103

During the reporting period, the percentage of profit from retail finance of the Group increased. Profit before tax amounted to RMB38.820 billion, representing a year-on-year increase of 20.97%, accounting for 59.84% of the profit before tax of the Group, representing a year-on-year increase of 5.40 percentage points; net operating income amounted to RMB75.348 billion, representing a year-on-year increase of 19.77%, accounting for 54.47% of the net operating income of the Group, representing a year-on-year increase of 4.58 percentage points. At the same time, the cost-to-income ratio of retail finance business was 28.03%, representing a year-on-year decrease of 3.48 percentage points.

Geographical segments

The major outlets of the Group are located in the major economic centres of China and some large 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 2019		Total liabilities 30 June 2019		Profit before tax January to June 2019	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
(in millions of RMB, except for percentages)						
Head Office	3,291,469	46	2,857,278	43	11,944	18
Yangtze River Delta	863,780	12	853,384	13	13,497	21
Bohai Rim	569,020	8	563,651	9	7,463	11
Pearl River Delta and West Side of Taiwan Strait	757,278	10	746,988	11	11,848	18
North-eastern China	149,283	2	147,403	2	2,487	4
Central China	437,255	6	434,116	7	4,560	7
Western China	410,056	6	405,789	6	5,629	9
Overseas	214,890	3	209,884	3	1,079	2
Subsidiaries	500,150	7	400,693	6	6,366	10
Total	7,193,181	100	6,619,186	100	64,873	100

	Total assets 31 December 2018		Total liabilities 31 December 2018		Profit before tax January to June 2018	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
(in millions of RMB, except for percentages)						
Head Office	3,129,174	46	2,739,929	44	5,955	10
Yangtze River Delta	777,607	12	759,258	12	14,138	24
Bohai Rim	526,143	8	513,813	8	8,829	15
Pearl River Delta and West Side of Taiwan Strait	693,830	10	679,961	11	12,056	20
North-eastern China	144,367	2	146,060	2	(827)	(1)
Central China	389,081	6	380,025	6	6,135	10
Western China	380,152	6	371,913	6	7,032	12
Overseas	240,080	4	234,741	4	1,561	3
Subsidiaries	465,295	6	376,424	7	4,066	7
Total	6,745,729	100	6,202,124	100	58,945	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 position and operating results and the related 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 RMB1,674.968 billion. For details of the contingent liabilities and commitments, please refer to Note 39 to 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 following content and data starting from Section 3.8 are analysed from the perspective of the Company.

3.8 Business Development Strategies

Further advance the all-round upgrade of the business model towards stage 3.0

During the reporting period, the Company adhered to the development strategy of “Light-operation Bank” and strategic positioning of “One Body with Two Wings”. While staying current with the pulse of staged development of China’s banking industry, the Company further advanced the all-round upgrade of its business model towards stage 3.0 building on the advantages in structure and quality achieved in stage 2.0 and the relentless effort to develop itself into a “Digital Bank” and a “Bank with the Best Customer Experience”.

During the reporting period, the information technology expenses of the Company amounted to RMB3.633 billion, representing a year-on-year increase of 63.87%, and the ratio of which to the Company’s net operating income was 2.81%. As at the end of the reporting period, the Bank declared a total of 1,601 Fintech innovation projects, with 1,169 projects approved, of which 500 projects have been launched and put in use, covering such areas as retail, wholesale, risk, technology and organisational culture transformation, which provided a solid support for exploring the model of stage 3.0.

1. *Reshape the digital retail finance system under the guidance of the “North Star” Metric MAU*

The first is digital customer acquisition. The Company used the CMB APP and CMB Life APP as a platform to explore and build the digital customer acquisition model and secure new growth drivers in retail customer acquisition through co-branded marketing, linked marketing, scenario marketing, branded advertising marketing, self-media fan marketing and MGM (Member Get a Member) social marketing, while shifting the approach from customer oriented to user oriented, all in an effort to widen the channel of customer acquisition. As at the end of the reporting period, the aggregate number of users of CMB APP amounted to 92,758,000, with the percentage of digital customer acquisition through debit cards increasing to 25.78%; the aggregate number of users of the CMB Life APP amounted to 80,839,400, with the percentage of digital customer acquisition through credit cards increasing to 62.65%.

The second is digital operation. During the reporting period, the monthly active users (MAU) of the Company’s two major APPs, i.e. the CMB APP and CMB Life APP, amounted to 85,111,100, representing an increase of 5.01% compared with the end of the previous year, which made these two APPs our major platform for customer management. Firstly, through the opening of the platform, the Company constantly improved the efficiency of service innovation. By opening the APP platform internally, all our branches can quickly provide new services by developing applets on the CMB APP, and by opening the API (Application Programming Interface) of the CMB APP to our partners externally and focusing on key scenarios such as meal tickets, movie tickets, public transportation, aggregated ride-hailing, and parking, etc., the boundary of service was further expanded. During the reporting period, the CMB APP had over 10 million MAUs engaging in 8 scenarios, including account overview, Zhao Hu(招呼), income and expenditure, transfer, wealth management, life, credit card and activities; the use rates of the financial scenario and non-financial scenario² of the CMB APP were 87.70% and 63.43%, respectively, and use rates of the financial scenario and non-financial scenario of the CMB Life APP were 80.80% and 68.30%, respectively. Secondly, we continuously strengthened the online interaction with our customers through digital operations. During the reporting period, the number of logins to the CMB APP was 2.823 billion, with a monthly average logins of 11.30. 44 of our branches have opened the City Zones(城市專區), and 1,062 of our outlets have opened their online stores. Meanwhile, we actively explored effective methods for the management of retail customers with online and centralised models, covering 4,690,000 Golden Card Holder customers

2 In 2019, the Company optimised the data calculation calibre, and re-divided the scenario attributes in the APP, and calculated the use rate after de-duplicating the financial/non-financial scenarios. Financial scenario usage = financial scenario de-duplicated MAU/total MAU, non-financial scenario usage = non-financial scenario de-duplicated MAU/total MAU. The same user may use two types of scenarios at the same time, so the sum of the use rate of the two types of scenarios is greater than 100%.

and Sunflower customers. Based on the large amount of data accumulated during the digital operation, customer persona profile has become more accurate, resulting in higher marketing accuracy, and through the 1,863 persona labels generated for retail customers, during the reporting period, the number of customers reached effectively was over 3.9 billion, representing an increase of 2.98 times compared with the corresponding period of the previous year, and the successful marketing ratio reached 20.83%. Thirdly, we further enhanced the efficiency of financial services based on digital operations. During the reporting period, the sales of wealth management investments via the CMB APP amounted to RMB3.91 trillion, up by 30.33% year-on-year, and accounting for 69.88% of the Company's retail wealth management investments; the consumer finance transaction amount of the CMB Life APP accounted for 48.01% of the credit card consumer finance transaction amount of the Bank. Fourthly, the Company rebuilt the customer experience monitoring system, connecting to 20 internal systems, and monitoring 747 customer experience indicators, which have been put into trial operation in some of our branches, providing system support for turning CMB into a bank with the best customer experience.

The third is the digital process. Through continuous optimisation of online and offline processes to enhance customer experience, the approval process of the retail credit business has been digitised throughout the whole process, realising the completion of approval for residential mortgage under T+0 timeframe and the completion of approval for micro-finance loans under T+2 timeframe in the case of complete application materials, representing an improvement in efficiency of 7% compared with the end of the previous year. Our customers may complete the approval and loan granting process within one minute after they submit the application for a "Flash Loan" through the CMB APP.

The fourth is digital risk control. The Company has been continuously strengthening and expanding its intelligent risk control platform known as the "Libra System", with its scope of counterfeit detection covering all online and offline transaction channels, and further optimised reminding and interception of telecom frauds. During the reporting period, the "Libra System" was able to intercept a suspected fraudulent transaction within 30 milliseconds, reducing the ratio of counterfeit and misappropriation by non-cardholders to 7/10,000,000. It intercepted 36,000 telecom fraud transactions with an amount of more than RMB900 million, providing strong protection of the capital of our customers.

2. *Reshape the wholesale business model from an ecological perspective*

The Company constantly explored for the feasible path of the digital transformation of our wholesale business, advanced the traditional transaction banking business to upgrade to the industrial Internet, tried to solve the problems in risk identification and management, and reshaped the business model for the wholesale business.

The first is the digital business platform. The Company relied on the CMB Corporate APP to build an open all-scenarios mobile service platform for corporate users. As at the end of the reporting period, the number of CMB Corporate APP customers amounted to 758,000, representing an increase of 41.97% compared with the end of the previous year, with 317,800 MAUs, representing an increase of 54.65% compared with the end of the previous year. During the reporting period, the Company built a unified digital platform for corporate customers – CMB Open Platform, using Fintech to transform service offering, exploring ways to support the transformation of business models with standardised and modularised services, while responding quickly to customers' needs for industrial Internet. As at the end of the reporting period, the CMB Open Platform has deployed 13 application services and launched 9 major products and 5 types of solutions.

The second is the online migration of the wholesale financial products. As at the end of the reporting period, the Company has moved 145 of its 211 wholesale financial products online, with the payment agency business for which the financing application was submitted online accounted for more than 60% of the total; the Company also optimised the approval and lending process for its bill discounting business, with the loan processing time shortened from 0.5 day to less than 30 minutes. Some branches can even release the loan within one minute at the quickest, delivering a significantly improved operational efficiency and customer experience. During the reporting period, the business volume of online bill discounting amounted to RMB133.061 billion, representing a year-on-year increase of 199.93%, with 8,562 online bill discounting customers, of which small, medium and micro-sized enterprise customers accounted for 92%, indicating a continuous improvement in our digital inclusive financial service capability.

The third is digital risk control. During the reporting period, the Company integrated the internal and external data to build customer-related knowledge graph, while strengthening its risk analysis capabilities for specific scenarios, and establishing the risk characteristic models which included scenarios such as guarantee circles, financial legal disputes, risk transmission, risk conditions, financing of small loan companies, policy interpretation, data quality inspection, credit approval and authorisation, which effectively reduced the business risks; the Company also built an intelligent pre-warning system for corporate customers which was based on the machine learning algorithm, and as at the end of the reporting period, the pre-warnings hit an accuracy rate of 75.21% for corporate customers with potential risks.

The fourth is the industrial Internet. The Company unblocked the industry chain from three aspects, i.e. digital operation of the account and payment system, digital financing, and output of Fintech capability. In terms of the unified payment and settlement system, the Company has realised the innovative bill collection and classification functions and the internal settlement mode on the B2B platform. During the reporting period, the comprehensive settlement solution "Cloud Bill" accomplished online migration of 55 corporate customers, with a transaction volume of more than RMB60.0 billion; the aggregated collection business focused on the four major scenarios, i.e. insurance, medicine, education and fast consumption, and acquired a total of 21,306 merchants. During the reporting period, the number of transactions reached 192 million with a total volume of RMB61.026 billion, representing a year-on-year increase of 492.08%.

3. *Constantly enhance the basic capability of science and technology with openness and intelligence as the core elements*

In terms of cloud + API, the Company accelerated the transformation of the system architecture, aiming to create an open IT architecture, and establish a large-scale IT infrastructure based on Cloud Native technology. During the reporting period, the total deployment of X86 servers increased by 110% year-on-year. With the release of a new generation of PaaS (Platform as a Service) platform aiming to speed up the cloud-based application for all businesses across the Bank, the percentage of cloud migration of the applications reached 36%. At the same time, it continuously enhanced its capability of open banking, with a total of 130 APIs released for the launch of an API-based shared scenario financial platform. In terms of Big Data + AI, the Company upgraded its Big Data cloud platform to increase the overall capacity of the data lake to nearly 5PB, with the data in the lake increasing by 23.43% compared with the previous year. Based on the integration of internal and external data, the Company expanded the research and application of AI technology, and established six major AI platforms, i.e. computer vision, speech recognition, natural language processing, knowledge graph, machine learning, and knowledge centre, so as to support the development of its business towards intelligence. In terms of the blockchain, the Company improved the development of standard sub-chain and BaaS (Blockchain as a Service) platform ecology, with a total of 20 applications. At the same time, the Company continued to deepen the integration of business and technology, and advanced the transformation of Lean R&D to a greater scale. As at the end of the reporting period, it has realised the integration and innovation of technology and business through agile development in 77 business areas, while continuously enhancing the delivery quality and speed.

4. *Reshape the organisational form and cultural atmosphere in the direction of openness, equality and innovation*

The Company took the "Egg Shell" platform and small team innovation projects as the starting point, and steadily advanced the construction of an open, equal and innovative cultural atmosphere. During the reporting period, a total of 402 suggestions submitted on the "Egg Shell" were accepted. As an important platform for our employees to report their problems anonymously, the "Egg Shell" has become an important consideration in improving our work, analysing our problems and making decisions. At the Company's annual awards ceremony, the Company presented an "Egg Shell Spirit Award" for the persistently active "Egg Shell Buddies" to encourage the growth of a new cultural atmosphere.

The "bottom-up" innovation mechanism for small groups used a number of means such as "personal independence", "assessment protection" and "encouraging innovation" to stimulate employees' inherent drive for innovation. The existing small groups have served over 700,000 internal and external retail customers in gift shopping guides, business travel, and overseas travel, K12 education, generating nearly RMB400 million of transaction volume based on payroll services for these customers.

3.9 Changes in the External Environment and Corresponding Measures

3.9.1 Impacts of changes in operating environment and key business concerns

1. *Net interest margin*

In the first half of 2019, the net interest margin of the Company was 2.77%, representing an increase of 16 basis points year-on-year and an increase of 13 basis points as compared with the overall level of the previous year respectively. The year-on-year increase was mainly due to the following reasons. From external perspectives, it was principally owing to the central bank's cuts in required reserve ratio. On one hand, the proportion of assets placed with the central bank to interest-earning assets decreased; on the other hand, the interest rate of market capital declined as driven by liquidity unleashed as a result of cuts in required reserve ratio, which led to decrease in cost of liabilities. From the perspective of internal management, firstly, with the continuing optimisation of the asset and liability structure, the proportion of retail loans to interest-earning assets improved, which led to a year-on-year increase in the yield of interest-earning assets. The structure of proprietary deposits remained relatively stable, and the percentage of demand deposits to proprietary deposits maintained at a higher level; secondly, the risk pricing capability for loans and cost control for deposits were enhanced constantly. In the second quarter of 2019, the net interest margin of the Company was 2.76%, representing a decrease of 2 basis points from the previous quarter, which was mainly due to the weak corporate credit demand, decline in the yield of corporate loans, increased competition for securing deposits, and increase in the cost of proprietary deposits.

Looking forward into the second half of the year, the net interest margin of the Company will remain under pressure. On one hand, the endogenous development capacity is still weak, the economic growth in China is barely optimistic, and the real economy cannot survive high pricing level. At the same time, with the steady advancement of the interest rate marketisation at home, based on the historical experience, the terminal interest rate will experience a gradual fall in the early stage of interest rate marketisation. Furthermore, asset pricing of commercial banks will be under certain downward pressure in light of the market situation featuring reasonably adequate liquidity. On the other hand, affected by the combination of fierce competition for securing deposits and further increase in deposit costs, the net interest margin of the Company is expected to face some narrowing pressure. The Company will closely monitor changes in the macroeconomic situation, monetary policies and regulatory policies, constantly optimise asset structure, and maintain asset pricing at a reasonable level. At the same time, given the increasingly fierce competition for securing deposits, the Company moves forward the continuing growth for securing deposits based on the principle of keeping a rational structure and balancing volume and value so as to maintains its net interest margin at an improved level.

2. *Net non-interest income*

During the reporting period, the Company realised net non-interest income of RMB44.760 billion, representing a year-on-year increase of 2.24%, which accounted for 34.61% of the net operating income of the Company, down by 2.24 percentage points year-on-year. The slower growth in net non-interest income was mainly explained by the followings: firstly, as impacted by tightened regulatory policies, New Regulation on Asset Management and capital market volatility, income from wealth management, custody, and agency distribution of funds declined; secondly, the base valuation of bonds and notes was elevated as a result of a sharp drop in market yields during the corresponding period of previous year.

During the reporting period, the Company recorded fee and commission income of RMB39.208 billion, representing a year-on-year increase of 4.33%. For key projects, the Company's fee and commission income from wealth management amounted to RMB12.545 billion, representing a year-on-year decrease of 20.42% (of which: income from agency distribution of insurance policies amounted to RMB4.076 billion, up by 30.43% year-on-year, which was mainly due to the year-on-year increase of sales from bancassurance products as a result of the recovery of bancassurance market; income from agency distribution of trust schemes amounted to RMB3.532 billion, up by 38.24% year-on-year,

which was driven by sales growth; income from entrusted wealth management services amounted to RMB2.540 billion, down by 54.15% year-on-year, which was mainly due to the impact of New Regulation on Asset Management; income from agency distribution of funds amounted to RMB2.345 billion, down by 47.85% year-on-year, which was mainly due to the year-on-year decrease in sales of funds as a result of a volatile capital market since 2019; and income from agency distribution of precious metals amounted to RMB52 million; income from bank card fees amounted to RMB9.603 billion, up by 18.88% year-on-year; income from settlement and clearing fees amounted to RMB6.559 billion, up by 22.78% year-on-year calculated on the same statistical calibre; custodian fee income amounted to RMB1.913 billion, down by 20.82% year-on-year, which was mainly due to the general depressed rates for custody fee in the market resulting from the decline in size and growth rate of custody assets of the whole industry. Please refer to section 3.2.6 for an analysis of the changes in the Group's net non-interest income.

In the second half of 2019, the Company will remain under pressure in maintaining the growth of its non-interest income. However, the Company will return to its origin of customer service, actively explore potential customers and businesses to boost income, so as to promote the stable development of its non-interest business through the following measures: firstly, it will start with enhancing customer loyalty and improving their experience in transaction settlement, and tap opportunities arising from electronic payment in the retail business, credit card, management of wholesale strategic customers, and basic settlement service with small-sized enterprise customers, so as to promote the healthy and sustainable growth of non-interest net income; secondly, it will adapt to the trend of financial disintermediation, accelerate the development of its investment banking business, and strive to grasp the market opportunities in bond underwriting and asset securitisation to benefit from the downward trend of interest rates; thirdly, it will aggressively adjust its business pulse and structure, and steadily promote the transformation and development of asset management business while maintaining its efforts to strike a balance between customer base and profitability; fourthly, it will rationally manage the size of the customer's assets, and optimise and adjust the investment structure of large-scale assets; fifthly, it will continue to explore potential customers and businesses to boost income from its intermediary business across the Bank and actively explore for new growth drivers.

3. *Proprietary deposits*

In the first half of 2019, the Company's proprietary deposits maintained its steady growth. The daily average balance per year of the proprietary deposits amounted to RMB4,304.564 billion, representing an increase of RMB217.047 billion or 5.31% from the previous year. However, the growth of the proprietary deposits of the Company is still facing the challenge of increasing interbank competition and the decline in the proportion of the demand deposits. In terms of competition for deposits, as M2 keeps a single digit growth rate, the competition for deposits among the financial institutions has intensified, which resulted in the increase in the costs of deposits. From the perspective of the proportion of demand deposits, on one hand, as the macro economy was growing at a slow pace, the capital of enterprises are under-utilised; on the other hand, following the promulgation of the New Regulation on Asset Management, the wealth management funds have been directed to deposits but customers still asked for high return, thus driving up costs of deposits and increasing preference for time deposits, resulting in a decline in the proportion of demand deposits.

In the second half of 2019, it is expected that the growth of M2 will remain stable, while the competition for deposits in commercial banks will remain fierce as the space for deposit growth of financial institutions is limited, therefore, the growth of deposits will be under pressure in both volume and price. In order to cope with the above challenges, the Company plans to take the following initiatives: firstly, it will continue to improve the capability in managing deposit costs, while flexibly arranging active liabilities, expanding the sources of liabilities, and alleviating the upward pressure on deposit costs; secondly, it will keep up good level of service for basic settlement and cash management with wholesale customers, so as to promote the growth of low-cost deposits such as settlement-related deposits of the wholesale customers; thirdly, it will adhere to the development strategy of driving retail customer deposits with marketing efforts targeting at retail customers, increase its efforts to expand the retail customer base and deepen customer management, and consolidate the foundation for the growth of deposits from retail customers. It is expected that with the above measures, the Company will be able to maintain the proportion of the demand deposits at a relatively high level while maintaining the steady growth of the demand deposits.

4. *Investment of loans*

In the first half of 2019, the Company's retail loans registered significant growth. In terms of residential mortgage loans, the Company seized the opportunities with relatively strong demand in the market and appropriately increased the resources invested in the residential mortgage loans. As at the end of the reporting period, the balance of residential mortgage loans of the Company increased by 11.47% as compared with the end of the previous year. In the second half of the year, it is expected that the growth of residential mortgage loans will slow down compared with the first half of 2019 under the influence of fast-growing leverage and real estate market regulation policies. In terms of micro-finance loans, the Company actively responded to the call to support small and micro businesses and increased its efforts to enhance availability of retail micro-finance loans. As at the end of the reporting period, the balance of the Company's micro-finance loans increased by 9.42% as compared with the end of the previous year, which provided a strong support to the development of the small- and micro-sized enterprises.

In the first half of 2019, the balance of the Company's corporate loans increased by RMB44.022 billion compared with the end of the previous year, representing a year-on-year increase of 2.90% and a slower growth rate, primarily because, on one hand, enterprises were not eager to expand business and the financing needs were weak in a downward economic cycle; on the other hand, since the beginning of the year, the liquidity has been reasonably adequate, resulting in an overall decreasing trend in interest rate in the monetary market and yields in the bond market. In response, our customers, especially those large enterprises, tend to replace bank loans with low-cost financing such as bonds and early repayment of loans also became more common.

As at the end of the reporting period, the balance of the Company's inclusive micro-finance loans³ was RMB423.212 billion, representing an increase of RMB30.037 billion or 7.64% compared with the end of the previous year. In 2019, it is expected that the Company will be able to achieve the target of "increase in both total loan and number of uses, and control of both loan quality and comprehensive cost (兩增兩控)" as requested by CBIRC and continue to enjoy preferential policies such as exemption on VAT for micro-finance loans and targeted statutory deposit reserve ratio cuts.

3 Refers to the small and micro-sized enterprise loans + private industrial and commercial business operating loans + small and micro-sized enterprise operating loans with a single-account credit limit of RMB10 million, according to the "increase in both total loan and number of uses, and control of both loan quality and comprehensive cost (兩增兩控)" appraisal calibre of CBIRC, which is the full-scale RMB domestic calibre, including bill financing.

In the second half of the year, the Company will maintain its investment in retail credit resources while maintaining stable credit management policy. In terms of retail loans, the Company will try to maintain a steady growth in residential mortgage loans, optimise the structure of residential mortgage loans, and prioritise the satisfaction of quality customers and projects, and promote the steady development of micro-finance loans while keeping risk under control. In terms of corporate loans, under the influence of feeble external macroeconomic growth and insufficient effective financing needs of the enterprises in the short term, the overall growth of corporate loans will remain weak. However, the Company will continue to exploit the structural opportunities brought about by the continued influence of the fiscal policies and the development of emerging industries and industries with new growth engines to expand the growth space for corporate loans and constantly optimise the credit structure, and enhance the customer service capabilities.

5. *Asset management business*

The Company is of the view that the New Regulation on Asset Management and its supporting provisions have played an important role of scientific direction and guidance on the development of the asset management business in the future. During the reporting period, the Company continued to optimise the overall transformation plan for the asset management business for the transition period in accordance with the requirements of the New Regulation on Asset Management, in combination with the actual situation of the wealth management business of the Company and the rectification of the industry. During the transformation of the asset management business, notwithstanding the objective difficulties such as duration matching, back-to-balance sheet rectification and compliance conversion between our new and existing products, the Company will carefully conform to the regulatory policy and actively explore a compliant transformation path which is suitable for the Company's assets management business to steadily promote its transformation and development. Currently, on the product side, the Company has launched its core product line, with faster pace of new product issuance. On the asset side, the Company has adopted a number of measures, such as regular recovery of assets upon maturity, recovery of assets in advance and issuance of wealth management products fully compliant to the New Regulation on Asset Management to dovetailing with the existing wealth management assets, among other rectification works under the guidance of the rectification plan.

The transformation of wealth management products is a long-term process. With the gradual issuance of new products that meet the New Regulation on Wealth Management, the Company's entrusted wealth management income will gradually stabilise.

In April 2019, the Company received the approval from the CBIRC regarding the establishment of CMB Asset Management Company Limited (hereinafter referred to as "CMB Asset Management"). Currently, the preparations for the establishment of CMB Asset Management is progressing in an all-round way and has made substantial progress in respect of corporate governance, human resources, risk management, brand building and system establishment. It is expected that all prerequisites for starting business will be satisfied before the expiration of the six-month preparatory period and business will commence upon regulatory approval. After the start of business of CMB Asset Management, the Company will transfer the products that meet the requirements of the New Regulation on Asset Management to CMB Asset Management in accordance with the regulatory requirements, and entrust the outstanding existing products to CMB Asset Management. To the Company, the establishment of CMB Asset Management will provide a larger space for the development of its wealth management business. CMB Asset Management will adhere to its tenet known as "Repay Your Trust with Professional Wealth Management" and give full play to the Company's advantages in terms of brand, customers, channels and Fintech to gradually establish an all-round asset management business model which focuses on fixed income investments, supplemented by equity and alternative asset investments, and provide customers with cross-market, multi-category wealth management product portfolios and asset management service options, so as to meet their diversified needs for assets management.

For further details of the Company's asset management business, please refer to section 3.10.2 "Asset Management Business".

6. *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 1.28%, representing a decrease of 0.13 percentage point as compared with the end of the previous year, while the proportion of special-mentioned loans in total loans was 1.33%, down by 0.23 percentage point from the end of the previous year; the proportion of overdue loans in total loans was 1.55%, down by 0.10 percentage point from the end of the previous year. The loan allowance ratio was 5.10%, down by 0.04 percentage point from the end of the previous year. The allowance coverage ratio of non-performing loans was 399.56%, representing an increase of 36.35 percentage points as compared with the end of the previous year. The credit cost ratio (annualised) was 1.50%, representing a decrease of 0.18 percentage point as compared with the previous year. The risk exposure was generally stable.

In the first half of 2019, the Company recorded new non-performing loans formed of RMB23.059 billion, representing a year-on-year increase of RMB7.142 billion, with an (annualised) formation ratio of non-performing loans of 1.20%, up by 0.28 percentage point year-on-year. In terms of business category, the formation amounts and formation ratios of non-performing corporate loans and credit cards increased year on year, while those of the retail loans (excluding credit cards) remained relatively stable. From the regional perspective, the formation amounts and formation ratios of non-performing loans in the Head Office, Western China, Pearl River Delta, and West Side of Taiwan Strait and North-eastern China increased year on year, while those in Bohai Rim, Yangtze River Delta, and overseas regions fell year on year. From the industrial perspective, the formation amounts and formation ratios of non-performing loans in the leasing and commercial service, transportation, storage and postal services increased year on year. From the perspective of customer base, the formation amounts and formation ratios of non-performing loans to the large and medium-sized enterprises increased year on year, while those to the small enterprises fell year on year.

During the reporting period, the Company continued to strengthen the disposal of non-performing loans, and used a number of methods to reduce and dispose of risk assets. During the reporting period, the Company disposed of non-performing loans amounting to RMB23.661 billion, of which RMB14.044 billion was written off in a normal way, RMB5.370 billion was recovered by cash collection, RMB1.651 billion was securitised as non-performing assets, and RMB2.596 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

In the first half of 2019, the Company continued to accelerate the process of securitisation of the non-performing assets. During the reporting period, the Company launched one securitisation project, and disposed of credit card-related non-performing assets with principal value in aggregate of RMB1.651 billion, and the nominal value of securities issued amounted to RMB270 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 assets and liabilities structure, and 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 “Guidelines on Marketisation of Debt-to-equity Conversion of Banks” issued by the State Council, the Company advanced the market-oriented methods of debt-to-equity conversion, carefully selected qualified debt-to-equity conversion subjects, reasonably formulated debt-to-equity conversion plans, and actively and steadily promoted the implementation of the debt-to-equity conversion projects.

In the second half of 2019, the macroeconomic situation at home and abroad remained complicated, posing challenges on the Company’s asset quality management. Accordingly, the Company will enhance its research on the industry and customer, formulate refined credit access standards, increase its efforts on risk pre-warning and screening as well as suppression of risky customers, maintain effective control of the risks in those key areas, dispose of non-performing assets, and strive to maintain stable asset quality.

7. *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, 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 in response to the guidance of national policy. 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) amounted to RMB491.971 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standardised assets), representing an increase of RMB7.424 billion as compared with the end of the previous year. Included therein was the balance of loans to domestic real estate enterprises which amounted to RMB274.311 billion, representing an increase of RMB29.190 billion as compared with the end of the previous 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. Balance of such loans accounted for 6.83% of the total loans and advances granted by the Company, up by 0.12 percentage point as compared with the end of the previous year. As at the end of the reporting period, the assets in the domestic real estate enterprises were of good quality with a non-performing loan ratio of 0.38%, down by 0.71 percentage point as compared with the end of the previous year. In the first half of 2019, the financing channels such as trust and bond issuance for real estate enterprises have been narrowed. Recently, relevant policies tended to be further tightened, which may put some financial pressure on some small and medium-sized real estate customer structure and real estate enterprises with high leverage. The Company will continue to adjust the real estate enterprises and regional asset structure. It is expected that without significant changes in macro environment and industrial policies, the asset quality of the Company in the real estate sector will remain relatively stable.

In respect of local government financing platform business, the Company effectively strengthened the control and management of compliance risks and credit risks in accordance with the State's policy requirements to continuously strengthen local governments' debts management, prevent and defuse the risks on local governments' implicit liabilities and further regulate the financing platforms as well as the investment and financing activities conducted by local state-owned enterprises. By adhering to the overall principle of "supporting preferential clients in selective areas in compliance with regulatory requirements and through quota management", the Company strengthened quota management and regional credit granting concentration monitoring, actively participated in the underwriting of and investment in local government bonds, directed its credit resources to local government financing platforms that are operated under market-based and commercial principles, with good cash flow and supported by relevant national policies, and strengthened post-lending management and monitoring. As at the end of the reporting period, the balance of risk exposure of our businesses with local government financing platforms (calculated on the broad statistical calibre) amounted to RMB271.689 billion (including businesses such as actual and contingent credit, bond investments, proprietary investments and fund investments of wealth management products), representing a decrease of RMB9.296 billion as compared with the end of the previous year. Included therein was the balance of loans on balance sheet which amounted to RMB104.588 billion, representing an increase of RMB2.202 billion as compared with the end of the previous year, and accounted for 2.61% of the total loans and advances granted by the Company, down by 0.19 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. Against the backdrop that the national fiscal and financial policies remain stable, it is expected that the quality of the Company's assets granted to local government financing platforms will remain stable in the second half of 2019.

For the 16 industries⁴ that we have reduced or withdrawn from such as coal, iron and steel, shipbuilding, photovoltaic and coal chemicals, the Company continued to implement the strategy of customer classification management, raised its entry threshold for customers, focused on supporting leading enterprises in industries and regional quality enterprises closely related to people's livelihood, prioritised services to satisfy green credit financing needs related to energy conservation and environmental protection and technological upgrading, devoted efforts to reducing and withdrawing from customers associated with significant risks, low-end technology customers or those with overcapacity issues, enterprises with high leverage and "zombie enterprise". 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 business financing exposure to the industries that we have reduced or withdrawn from⁵ (calculated on the full statistical calibre) amounted to RMB122.183 billion, representing a decrease of RMB4.623 billion as compared with the beginning of the year. The non-performing loan ratio was 7.63%, down by 1.93 percentage points as compared with the beginning of the year. The non-performing loan ratio of 4 industries including nonferrous metal smelting and calendaring, water transport, fertiliser and machine tool was higher than that at the beginning of the year, mainly due to the continuous decrease in the exposure of risk associated with certain large customers in the above-mentioned industries. The non-performing loan ratio of other 12 industries decreased as compared with the beginning of the year. It is expected that the overall risk in these industries is controllable in the second half of 2019.

8. Capital management

The Company continued to optimise its business structure and enhance capital management. During the reporting period, the Company satisfied all the capital requirements of the CBIRC.

As at the end of the reporting period, the capital adequacy ratio of the Company under the Internally-Modelled Based Approaches was 14.92%, down by 0.60 percentage point as compared with the end of the previous year; the capital adequacy ratio under the Standardised Approaches was 12.22%, down by 0.44 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, as the Company announced the distribution of cash dividend for 2018 of approximately RMB23.707 billion, the appropriation of the amount for dividend payable reduced undistributed profits accordingly, and in turn reduced net amount of the core Tier 1 capital; on the other hand, the Tier 2 capital bonds of RMB11.3 billion were redeemed in April, which further reduced the total net capital. If the above two factors are not taken into consideration, the capital adequacy ratios under both approaches would increase as compared with the end of the previous year. The core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio under the Standardised Approaches increased by 0.42 percentage point, 0.38 percentage point and 0.33 percentage point, respectively, and the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio under the Internally-Modelled Based Approaches increased by 0.24 percentage point, 0.18 percentage point and 0.27 percentage point, respectively.

As at the end of the reporting period, the percentage of the Company's risk-weighted assets under the Standardised Approaches to total assets was 67.04%; the percentage of risk-weighted assets (having taken into consideration the floor requirements during the parallel run period) under the Internally-Modelled Based Approaches to total assets was 58.99%, lowered by 8.05 percentage points as compared to that under the Standardised Approaches, indicating an effective saving in capital. The risk-adjusted return on capital (RAROC) before tax under the Internally-Modelled Based Approaches was 29.80%, 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 room for capital saving. During the reporting period, the Company issued 5 phases of credit asset-backed securities, including four phases of normal asset and one phase of non-performing asset, respectively, with the aggregate issuance volume of RMB31.892 billion. As at the end of the reporting period, the Company issued 37 phases of credit asset-backed securities in total, with an aggregate issuance volume of RMB211.098 billion, which was among the highest in the industry in terms of types of assets and market share.

⁴ 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.

⁵ The statistical calibre of the industries that we have reduced or withdrawn from has been changed, and the figures at the beginning of the year have been adjusted with the same calibre.

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.

In order to ensure the sustainable and healthy development of the Company's business, protect the long-term interests of shareholders, increase capital reserve, reinforce the capital base and enhance the capability of risk resisting, the 46th meeting of the Tenth Session of the Board of Directors of the Company and the 2018 Annual General Meeting considered and approved the "Proposal regarding the General Mandate to Issue Write-down Undated Capital Bonds" on 3 June 2019 and 27 June 2019, respectively, to authorise the Board of Directors to decide whether to issue the write-down undated capital bonds (the "Bonds") in due course and the issue size shall be not more than an equivalent amount of RMB50 billion. If the decision on issuance is made, the issuance of the Bonds shall be initiated under the framework and principles as considered and approved at the General Meeting. The Board of Directors shall formulate the specific issuance plan or authorise relevant persons to handle the relevant matters. Under the aforesaid authorisation, the 3rd meeting of the Eleventh Session of the Board of Directors of the Company considered and approved the "Proposal regarding the Issuance of Write-down Undated Capital Bonds" on 23 August 2019, deciding to issue the Bonds domestically with an issue size of not more than RMB50 billion. For details, please refer to the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

9. Advancement in monthly active users (MAU)

In the first half of 2019, based on the traditional customer acquisition models such as expanding customer base in payroll services by strengthening the synergy between the corporate and retail business as well as securing customers through outlets, the Company established a centralised team to conduct direct marketing, with an aim of empowering branches in the area of direct marketing and frontline selling, and accelerate the breakthrough in digital customer acquisition model and other new customer acquisition models to facilitate the continuous increase in users and customers. Firstly, the Company restructured its product system and improved the debit card product system of "function + service + rights". Secondly, the Company rebuilt online functions, comprehensively adopted digital customer acquisition model, optimised search engines by leveraging on Big Data, and enhance the effect of customer acquisition through brand advertisements. The Company promoted customer acquisition from the WeChat fans through the upgrading of functions and marketing activities, and facilitated the conversion from fans to users through intelligent touch and operation refinement at the same time. The Company encouraged its branches to actively expand the Internet platforms and merchants from vertical industries in areas where they operate, and promoted the customer acquisition through scenario marketing with the consumer payment scenario plan. The Company directed its efforts at young customer groups to strengthen customer acquisition through fan IP and other co-branded cards. Meanwhile, the Company optimised the marketing process, upgraded the marketing interaction methods and strengthened the introduction of the APP platforms to improve the joint marketing efficiency between online and offline platform collaborations and between the credit card business and debit card business. The Company built a standardised process for customer referral, improved the emotional communication with customers, strengthened the socialisation feature in its marketing strategies and promoted "one-to-one" and "one-to-many" customer acquisition.

In the future, as the number of monthly active users (MAU) will gradually approach the total number of retail customers, the acquisition of monthly active users (MAU) of the Company will face greater challenges. To address this problem, in respect of user acquisition, with digital customer acquisition as the key focus, the Company will, based on the digital customer acquisition model, strive for substantial growth in customers through strong market expansion capability, continue to increase the proportion of customers acquired by digital channels, and put efforts on developing a batch of light customer acquisition capabilities to maintain the momentum of sustainable growth. In respect of realising the conversion from users to customers, the Company will march toward digital management, continue to actively promote the new online digital managing model for retail customers and carry out traffic management by focusing on the construction of effective core scenarios. Firstly, by focusing on the scenario construction to cater for basic daily needs of users, such as travel, medical care and education, the Company will offer its financial service through the “Cloud + API (application programming interface)” model, so as to strengthen customer loyalty and market penetration of the Company’s products. Secondly, through constant improvement in wealth management scenarios and consumer finance scenarios, the Company will promote the connection between traffic growth and traffic conversion in an orderly manner, explore the new model to monetise closed-loop traffic management and fully exploit the potential value of active customers to generate profits by creating value for the customers.

3.9.2 Outlook and counter-measures for the second half of 2019

Looking forward into the second half of 2019, with the global economic growth slowing down, the US economy is struggling with weakening growth momentum while the European economy is still in the doldrums, coupled the impact of Sino-US trade friction and geopolitical risks, the uncertainty in economic operation has grown significantly. China’s supply-side reform has entered the deepwater area, putting its economic growth under downward pressure. The trade friction will probably continue in the medium and long term and become a key factor affecting China’s economic development trend. Under the guidance of the policy known as “houses are for living, not for speculation”, regulations and control over the real estate market will remain tight in the second half of the year, putting the real estate investment under considerable pressure. Due to the slowdown in profit growth, investment in the manufacturing sector is facing downward pressure too, but policies intended to stabilise the investment in the manufacturing sector may provide certain support. Under the influence of positive fiscal policies and the new regulations of the local governments on special bonds, the investment in infrastructure is expected to rebound, partially offsetting the downward pressure on the fixed assets investment. Tax cuts and favourable policies for industries such as automobiles and home appliances may provide certain support to the weak consumption. Exports will continue to face the pressure from the trade friction. Due to the weak demand, the CPI inflation median will fall compared with June, and the PPI will remain at a low level. Following the US Federal Reserve’s interest rate cut and cease of shrinking of its balance sheet, the Sino-US interest rate spread is expected to remain unchanged, and the RMB exchange rate is expected to remain basically stable at a reasonable and balanced level.

In the second half of the year, maintaining the balance between “steady growth” and “risk prevention” remains the theme of China’s macroeconomic policies. A positive fiscal policy emphasises “implementation in fine detail” while a sound monetary policy aims at “maintaining reasonably adequate liquidity”. On the basis of maintaining credit stability, the central government will continue to optimise the financial supply structure, foster the market-based loan pricing mechanisms, and guide the financial institutions to reduce corporate financing costs. It will also deepen the structural reform on the supply side, expand consumption, stabilise investment in manufacturing, and accelerate the construction of new infrastructure through the “method of reform”. On the whole, with the support of macroeconomic policies, China’s economic performance is expected to remain stable in the second half of the year, while the structural adjustment will be deepened, with economic and financial risks generally controllable.

In such a complicated situation, the Company will maintain its strategic determination, and accelerate the exploration of a new model of banking operations in the digital age. Such exploration will specifically include the following aspects: **firstly**, we will further promote the digital transformation of our retail business segment. In terms of customer acquisition, with expanding the opening and increasing scale as our key tasks, we will continue to optimise and enhance the efficiency of the digital customer acquisition model while renovating the outlets and payroll service processes, services content, and promoting the digital upgrade of traditional channels; in terms of transformation, through the expansion of service functions and improvement on service experience, we will continue to explore the transformation of non-cardholder APP users into our customers; in terms of customer management, we will continue to explore and consolidate our capabilities of managing retail customer by centralised, digital and intelligent means; In terms of scenario building, we will continue to enrich the financial and non-financial service functions and boost the core competitiveness of our APPs; in terms of services, we will continue to improve our customer experience monitoring system which is fully process-oriented, visualised, real-time responsive, and capable of quickly optimising and improving poor-performing items. **Secondly**, we will improve the systematic management of the wholesale business segment. We will optimise the assets structure with regard to two key factors: customers and products. While continuing to serve the strategic customers at the Head Office and branches, we will seize the opportunity to actively acquire the enterprises with new growth drivers, and build a customer group of small-sized enterprise customers with stable structure and sufficient quantity with featured products and services, and enhance our project financing and supply chain financing capabilities in terms of recognition, regulations, processes, and product. We will continue to advance the construction of the two major systems, i.e. customer service system and customer manager management system to build professional capabilities, and accelerate the digital transformation of our wholesale finance business based on digital platform construction and industrial Internet business. **Thirdly**, we will penetrate into the essence of risks and return to the common sense of risks, and complete our comprehensive risk management system while consolidating the risk management foundations such as early warning, rating, and limit management; we will fortify our first line of defence and return to the foundation of our business, while prudently judging business feasibility based on the principle of commercial sustainability; we will also continue to improve our customer selection capability, especially the professional knowledges about various sub-sectors, and improve and complete our management systems of reputational risks and compliance risks. **Fourthly**, we will promote the management and organisational culture to model 3.0, so as to empower our front line business, and reduce the burden of our grassroots units. In terms of management model, we will shift from control to empowerment, from vertical operation to integration, and eventually to “light management”. In terms of ideological concepts, we will shift from experiential thinking and authoritarianism to stressing the value of data, and eventually to the “light culture.”

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 RMB38.302 billion, representing an increase of 20.86% as compared with the corresponding period of the previous year; the net operating income from the retail finance amounted to RMB74.212 billion, representing an increase of 20.38% as compared with the corresponding period of the previous year, and accounting for 57.38% of the net operating income of the Company. Among the income of retail finance, the net interest income amounted to RMB48.393 billion, representing an increase of 28.86% as compared with the corresponding period of the previous year, and accounting for 65.21% of the net operating income from retail finance; the net non-interest income amounted to RMB25.819 billion, representing an increase of 7.17% as compared with the corresponding period of the previous year and accounting for 34.79% of the net operating income from retail finance, and 57.68% of the net non-interest income of the Company. During the reporting period, the retail finance of the Company recorded a fee income of RMB9.556 billion from bank cards, representing an increase of 19.09% as compared with the corresponding period of the previous year; the fee and commission income from retail wealth management was RMB10.626 billion, accounting for 42.00% of the net fee and commission income from retail finance.

2019 is a crucial year for the digital transformation of retail finance 3.0. As the competition in the retail finance intensified, the Company strengthened innovation and breakthroughs, deepened the development of professional capacity, and continued to enhance its core competitiveness in retail businesses such as wealth management, private banking, credit card, retail loan and consumer finance. At the same time, by adhering to the “Digital Bank” strategy, the Company strived to build a service system with “full-customer, full-product and full-channel” supported by platform and driven by Big Data with an aim to provide its customers with the best experience and with MAU as the “North Star Metric”, built a new digital customer acquisition and operating model and further implemented the digital transformation of retail finance 3.0, so as to strengthen its differentiated competitive advantages in retail finance.

Retail customers and total assets under management from retail customers

As at the end of the reporting period, the Company had 134 million retail customers (including debit and credit card customers), representing an increase of 7.12% 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 2,559,400, representing an increase of 8.33% as compared with the end of the previous year. The balance of total assets under management from our retail customers amounted to RMB7,258.838 billion, representing an increase of 6.71% 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 RMB5,888.426 billion, representing an increase of 6.90% as compared with the end of the previous year, and accounting for 81.12% of the balance of total assets under management from retail customers of the Bank. As at the end of the reporting period, the balance of deposits from retail customers of the Company amounted to RMB1,547.941 billion, representing an increase of 7.74% as compared with the end of the previous year. During the reporting period, among the daily average balance of deposits per year from retail customers of the Company, the percentage of demand deposits accounted for 68.40%. According to the data released by the PBOC, the Company ranked first among all small and medium-sized banks in China 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 141 million All-in-one Cards in aggregate have been issued by the Company for retail customers, up by 6.33% as compared with the end of the previous year.

In the first half of 2019, the growth in wealth of residents slowed down, while the Company managed to maintain stable increase in the number of retail customers and total assets under management from retail customers, and actively explored ways to develop a new service model of “manual work + technology” in line with digital transformation. As at the end of the reporting period, the digital transformation in retail finance achieved initial results, and built an operation service system that can comprehensively connect finance to life. While expanding the boundaries of customer services, the Company stepped into the new stage of subdividing customer bases and digital management, and further focused on developing batch customer acquisition capability in light operation way and digital management capability.

Wealth management

In the first half of 2019, the Company recorded RMB4,768.381 billion in sales of personal wealth management products, representing a decrease of 2.00% as compared with the corresponding period of the previous year; RMB306.697 billion in the agency distribution of listed open-ended funds (LOF), representing a decrease of 37.39% as compared with the corresponding period of the previous year, which was mainly due to a decrease in sales as a result of a drop in the yields of monetary funds and a steady increase in the balance of monetary funds; RMB192.937 billion in agency distribution of trust schemes, representing an increase of 32.04% as compared with the corresponding period of the previous year; and RMB49.015 billion in premiums from agency distribution of insurance policies, representing an increase of 84.58% as compared with the corresponding period of the previous year, which was mainly due to a significant increase in the sales of single-premium products. In the first half of 2019, the Company recorded a fee and commission income from retail wealth management business of RMB10.626 billion, among which, income from agency distribution of insurance policies amounted to RMB4.075 billion, income from agency distribution of trust schemes amounted to RMB3.279 billion, income from agency distribution of funds amounted to RMB2.330 billion, and income from entrusted wealth management amounted to RMB890 million. For the reasons of 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, facing intensified market competition, the Company strived to enhance the customer base expansion and management, product design & development and refined management with deepened Fintech application to expand the differentiated and leading advantages of the Company in terms of wealth management business, with an aim to enhance customer experience constantly. Firstly, the Company built an integrated financial service and non-financial service system based on customers' needs to provide customers with digital solutions. Secondly, the Company allocated suitable products to the right customers through proper channels based on the classification of customers and through differentiated management. Thirdly, the Company strengthened the core capabilities in wealth management of its branches by using technology. With the implementation of the New Regulation on Asset Management and supporting policies, the Company actively promoted the transformation of the wealth management products to net-value products. During the reporting period, the Company introduced a number of wealth management products complying with the New Regulation on Asset Management, and conveyed the concept of scientific asset allocation through online and offline investor education to actively guide its customers, and gradually realised the transformation to net-value products while maintaining a stable amount of wealth management asset. During the reporting period, the Company continued to implement the Sunflower Financial Planning Service System (金葵花財務規劃服務體系) and strived to provide household customers with a wealth management plan covering the whole life-cycle and unified management of assets and liabilities. In light of the application of Fintech and Big Data, the Company constantly optimised wealth check services and offered full-asset management service to customers through online-offline integration so as to cater to customers' need for comprehensive wealth management with heart and soul.

Private banking

As at the end of the reporting period, the Company had 78,245 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 7.28% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB2,160.987 billion, representing an increase of 5.97% as compared with the end of the previous year; total assets per account amounted to RMB27.6182 million. As at the end of the reporting period, the Company has established a high-end customer service network consisting of 72 private banking centers and 65 wealth management centers in 66 domestic cities and 7 overseas cities.

The private banking business of the Company 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 meeting the various demands of high-net-value customers consisting of individuals, families and enterprises. The Company continued to make asset deployment among the major categories including fixed income, cash and currencies, equity, alternative investments and assets with guarantee purpose for its customers and offer them professional, comprehensive and private financial services in investment, taxation, legal affairs, M&A, financing and clearing, thus benefiting both customers and the Company.

With the implementation of the New Regulation on Asset Management, the wealth management industry was directed back to its origin at a faster pace. The advantage that the private banking business of the Company has been striving to build, which was comprised of a professional system focusing on investment advisory services, has been increasingly prominent. The Company made the forward-looking deployment from the construction of a professional team, the design of the operating system to actual implementation. The Company will continue to make asset deployment for its customers in a proper way, and will provide a full range of professional investment advisory services on investment consultancy with customer portfolio management as the main axis. At the same time, with regard to the internal management, the Company continued to optimise the relevant processes, systems and rules with a customer-oriented perspective in order to comprehensively enhance the customer service experience. The Company continued to deepen the five-dimensional customer acquisition system to expand its customer base, and made progress 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 by virtue of Fintech. The Company continuously enriched and consolidated the financial services and non-financial services to comprehensively enhance its capability to serve high-end customers.

Credit cards

During the reporting period, the Company made persistent efforts on the growth of credit card business in a continuous, effective and safe manner. As at the end of the reporting period, the Company had 90.6104 million active credit cards, representing an increase of 7.48% as compared with the end of the previous year, and 61.3431 million active credit card users, representing an increase of 5.71% as compared with the end of the previous year. The balance of credit card loans was RMB652.531 billion, representing an increase of 13.41% as compared with the end of the previous year. The percentage of the revolving balances of credit cards was 23.44%. The volume of the credit card transactions of the Company during the period from January to June 2019 amounted to RMB2,038.102 billion, representing an increase of 12.03% as compared with the corresponding period of the previous year. Interest income from credit cards amounted to RMB27.145 billion, representing an increase of 25.69% as compared with the corresponding period of the previous year. The non-interest income from credit cards amounted to RMB14.494 billion, representing an increase of 48.08% as compared with the corresponding period of the previous year.

The risks arising from the rapid development of the cash loan industry in the earlier stage gradually exposed. However, the Company always developed the credit card business based on a sound risk management system with prudent risk preference, stable risk strategy, and a diversified and balanced asset structure, achieving healthy development in the credit card business. As at the end of the reporting period, the non-performing credit card loan ratio of the Company was 1.30%, representing an increase of 0.19 percentage point as compared with the end of the previous year, and the overall risk was controllable. In the long run, the quality of the Company's credit card loan assets will remain stable.

During the reporting period, the Company actively explored and put into practice of various Fintech to improve the efficiency of customer acquisition and management, including: constantly focusing on upgrading the service capability of CMB Life APP with a highlight on creating quality life; managing to set up a customer acquisition channel connecting fans, traffic and APP users to accelerate customer acquisition driven by technology; exploring new operating models by launching fan card products to develop stunning and popular card products; continuously optimising the models of consumer financial innovation products to further develop its financial services in e-commerce, education, fitness and other consumption scenarios; continuously conducting marketing activities in domestic and overseas market applicable to the high-frequency consumption scenarios based on the time-point of marketing, jointly establishing a cooperation platform with five major international credit card organisations to launch the "Very Globe" Programme to fully upgrade the overseas travel service to the 3.0 era; putting uttermost effort to build AI services platforms, actively promoting the application of Fintech and creating a Big Data ecosystem to further enhance the user experience. For details of CMB Life APP, please refer to the section headed "Distribution channels"

Facing the competition from financial institutions and non-financial institutions, the Company will continue to deepen its integration with mobile Internet, and strengthen its own platform and channel construction. Meanwhile, the Company will constantly expand its differentiated competitive edges by establishing a comprehensive intelligent customer acquisition system, innovating the consumer credit products, refining the platform operation management and building an intelligent risk management system.

Retail loans

As at the end of June 2019, the total retail loans of the Company amounted to RMB2,209.051 billion, representing an increase of 11.14% as compared with the end of the previous year and accounting for 55.04% of the total loans and advances to customers of the Company, up by 0.61 percentage point as compared with the end of the previous year. The total retail loans (excluding credit card loans) of the Company amounted to RMB1,556.585 billion, representing an increase of 10.22% as compared with the end of the previous year and accounting for 38.78% of the total loans and advances to customers of the Company, up by 0.11 percentage point as compared with the end of the previous year.

As to business development, the Company has put great effort to support the real economy in accordance with the State policies and regulatory requirements, and continued to increase investment to develop inclusive micro-finance loan business in the premise of assessing the risks prudently, and striking a balance between micro-finance loan business development and the quality of assets. The Company steadily developed its residential mortgage business by adhering to local real estate policies with an orientation to meet the residents' reasonable purchasing needs for self-living purpose. The Company strictly controlled the usage of consumption loans and guided a light development path of consumption loans towards the operation mode with online, small-valued and scenario-based features so as to realise the healthy development of retail loan business. As at the end of the reporting period, the Company recorded a balance of residential mortgage loans of RMB1,027.001 billion, representing an increase of 11.47% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB381.864 billion, representing an increase of 9.42% as compared with the end of the previous year. The balance of consumption loans amounted to RMB114.786 billion, up by 8.87% as compared with the end of the previous year. As at the end of the reporting period, the Company had 5,575,900 retail loan customers, representing an increase of 17.76% as compared with the end of the previous year. The rapid expansion of customer base was mainly attributable to the light customer acquisition model through online resources.

As to the quality of assets, by constantly optimising its policies for retail loans and enhancing its risk management capabilities, the Company remained stable in its retail loan assets quality. As at the end of the reporting period, the balance of the special-mentioned retail loans of the Company amounted to RMB27.425 billion, and its proportion of retail loans was 1.24%, representing a decrease of 0.09 percentage point as compared with the end of the previous year. The balance of non-performing retail loans amounted to RMB16.476 billion, and its non-performing loan ratio was 0.75%, down by 0.04 percentage point as compared with the end of the previous year. Among non-performing retail loan portfolio, the non-performing ratio of micro-finance loans was 0.91%, down by 0.43 percentage point as compared with the end of the previous year due to an acceleration in the disposal of the non-performing micro-finance loans; the non-performing ratio of consumption loans was 1.13%, remaining at the same level as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 76.00% of the Company's newly-formed non-performing retail loans during the reporting period, with a mortgage and pledge rate of 41.65%. Given that the vast majority of these newly-formed non-performing retail loans were fully secured by collaterals, the final loss was not substantial.

As to risk management, the Company relied on Big Data and quantitative models to take measures in certain aspects including customer group selection, data integration, approval and early warning strategy to prevent the risk of "joint debts" brought about by retail loan customers. With respects to the establishment of quantitative models for risk management, the Company continued to improve the effect of self-built models by introducing advanced algorithms and models, and promote the adoption of risk models covering all the process and products. With respects to customer group selection, the Company insisted on selecting the quality customers with stable business, occupation and income as its main source of customer acquisition. With respects to data source, the Company built a large credit platform to expand the dimension of risk identification and formed a unified view of risks associated with its customers to accurately generate the portraits of the customers. With respects to approval and early warning strategy through quantitative risk management technology, the Company rigorously set up the strategy to improve the timeliness and accuracy of post-lending early warning work. With respects to collection, the Company replaced the manual collection with robots by using AI technology to improve collection efficiency.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB22.067 billion. The net operating income from wholesale finance of the Company was RMB54.853 billion, representing a decrease of 4.59% as compared with the corresponding period of the previous year, and accounting for 42.41% of the net operating income of the Company. Among them, net interest income of wholesale finance business amounted to RMB36.997 billion, accounting for 67.45% of the net operating income of wholesale finance; net non-interest income of wholesale finance amounted to RMB17.856 billion, accounting for 32.55% of the net operating income of wholesale finance business, and 39.89% of the net non-interest income of the Company.

Wholesale customers

The Company has fully implemented the centralised management of strategic customers, and established the corporate customer service system featuring segmentation and classification-based management, as well as professional and dedicated management in respect of institutional customers, small-sized enterprise customers, financial institution customers and offshore customers. **With regards to its basic customers**, as at the end of the reporting period, the total number of corporate customers was 1,960,600, up by 5.52% as compared with the end of the previous year, among which, the number of high-net-value corporate customers increased by 5,339. The number of newly acquired corporate depositors of the Company during the reporting period was 192,000, contributing daily average deposits per year of RMB57.165 billion, and the proportion of the number of newly acquired corporate depositors of the Company that contributing daily average deposits per year of RMB10,000 and above each increased by 2.10 percentage points as compared with the corresponding period of the previous year. The composition of the newly acquired corporate depositors was further optimised. **With regards to its strategic customers**, the Company took advantage of the “Digital Bank” and embedded the relevant services in the capital chain, industrial chain and ecological chain of the enterprises to realize the professional management in the industry and the integrated management for the customers. As at the end of the reporting period, the number of strategic customers under the Head Office of the Company was 282, up by 31 as compared with the end of the previous year; the balance of daily average proprietary deposits per year amounted to RMB673.205 billion, up by 13.83% as compared with the beginning of the year; and the balance of general loans amounted to RMB526.029 billion, up by 10.76% as compared with the beginning of the year. **With regards to its institutional customers**, the Company, on the basis of deepening the “Head Office-to-Head Office” strategic cooperation with the national ministries and commissions, strengthened the “professional, scenario-based, technology-driven and integrated” operation, and took advantage of the full-process financial services for local governments’ special debts to broaden the range of service. The Company strived for the qualifications of trustee, custodian and investment manager of occupational annuity, and actively participated in the pilot project of developing the third pillar of the pension system. Meanwhile, the Company put more efforts to expand the scenario of handy services for the public provided by institutional customers, and accelerated the launch of online inquiry functions in respect of provident fund, social security and other areas. As at the end of the reporting period, the Company had 33,000 institutional customers, with balance of daily average deposits per year of RMB812.386 billion during the reporting period. As at the end of the reporting period, the Company obtained 225 qualifications for conducting major institutional business, among which, the proportion of provincial level qualification for conducting institutional business was 45.4%. The market coverage rate of full-process financial services for local governments’ special debts accounted increased to 72.2%, ranking first in the market. The Company won the bid for 51 qualifications of occupational annuity in 24 provinces. At the same time, the Company focused on expanding the strong scenarios of five types of handy services for the public, being provident fund, social security, taxation, non-taxation and pension services, and applied 131 scenarios of handy services for the public to increase MAU. **With regards to its small-sized enterprise customers**, the Company continued to focus on three major customer bases, which were Qian Ying Zhan Yi (千鷹展翼), supply chain and traditional enterprises with stable businesses, actively conducted data exchange with government institutions by using Big Data and Internet technologies and innovatively developed online financing products such as “Zheng Cai Dai (政採貸)” and “Tui Shui Dai (退稅貸)” to continuously improve the financing product offerings for small-sized enterprise customers. The Company increased the types of standardised financing products for small-sized enterprise customers subject to centralised approval, so as to give full play to the advantage of centralised approval in efficiency. Meanwhile, the Company continued to strengthen its capability to offer basic financial services and meet the diversified non-financing services needs of small-sized enterprise customers in an efficient, convenient and comprehensive manner by taking measures such as optimising the new account opening process and launching an online platform for corporate customer acquisition. As at the end of the reporting period, the number of small-sized enterprise customers reached 1,854,500, representing an increase of 5.85% as compared with the beginning of the year. **With regards to its financial institution customers**, the Company, by establishing the financial institution customer service system featuring “centralised management, segmentation-based and intensive management”, subdivided two types of customer bases including strategic customers and basic customers, carried out in-depth management of strategic financial institution customers under comprehensive service plans and used Fintech methods to quickly access to basic customers, so as to efficiently create value for its financial institution customers. As at the end of the reporting period, the numbers of strategic financial institution customers at the Head Office-level and branch-level reached 67 and 196, respectively. **With regards to its offshore customers**, the Company returned to its origin of customer service, continued to improve the segmentation-based management of offshore strategic customers, value customers and basic customers, optimised the construction of offshore customer service system, and used Fintech methods to enhance the quality of customer service in all aspects.

Corporate loans

As at the end of the reporting period, total corporate loans of the Company amounted to RMB1,562.707 billion, representing an increase of 2.90% as compared with the end of the previous year and accounting for 38.93% of total loans and advances to customers of the Company. Among them, the balance of the medium- and long-term loans to domestic enterprises amounted to RMB716.236 billion, accounting for 50.10% of the total loans to domestic enterprises, and representing an increase of 2.82 percentage points as compared with the end of the previous year. As at the end of the reporting period, the non-performing loan ratio of our corporate loans was 2.22%, representing a decrease of 0.15 percentage point as compared with the end of the previous year. In the first half of 2019, the floating range of weighted average interest rates of newly granted corporate loans in RMB was 2.88%. As at the end of the reporting period, the weighted average default probability of the risk exposure of the domestic non-defaulting corporate customers was 1.00%, remaining at the same level as compared with 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 RMB1,226.595 billion, representing an increase of 2.32% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 85.80% of our total loans granted to domestic enterprises, down by 0.12 percentage point as compared with the beginning of the year; the non-performing loan ratio was 2.06%, up by 0.08 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 RMB120.657 billion, representing a decrease of 3.94% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 8.44% of our total loans granted to domestic enterprises, down by 0.56 percentage point as compared with the beginning of the year; the non-performing loan ratio was 5.57%, down by 0.87 percentage point as compared with the beginning of the year. The balance of the loans granted to domestic small-sized enterprises amounted to RMB82.405 billion, representing an increase of 16.41% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 5.76% of our total loans granted to domestic enterprises, up by 0.69 percentage point as compared with the beginning of the year; the non-performing loan ratio was 2.81%, down by 2.32 percentage points 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 14.90%, down by 3.81 percentage points as compared with the beginning of the year.

During the reporting period, the Company steadily promoted the granting of corporate loans, continued to optimise the structure of corporate loans, and paid high attention to national key construction projects, especially the "Belt and Road", Beijing-Tianjin-Hebei, Xiong'an, Yangtze River Economic Belt and Guangdong-Hong Kong-Macau Greater Bay Area. The Company gave priority to support the financing needs of strategic emerging industries, green industries and infrastructure construction, and flexibly adjusted loans to real estate industry and local government financing platforms in response to the changes in external operating environment. As at the end of the reporting period, the balance of green loans of the Company was RMB170.247 billion, representing an increase of RMB4.214 billion as compared with the end of the previous year, and accounting for 10.89% of the total corporate loans; the balance of loans to strategic emerging industries⁶ was RMB148.666 billion, representing an increase of RMB18.337 billion as compared with the beginning of the year and accounting for 9.51% of the total corporate loans. 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 government financing platforms, please refer to section 3.9.1.

6 According to the statistical system of the CBIRC in 2019 namely "G19 Loan Statistics for Industries with Key Concern", the strategic emerging industry types were calculated in accordance with the new classification criteria of the "Strategic Emerging Industries Classification (2018)" of the National Bureau of Statistics, and the data at the beginning of the year were adjusted on the same statistical calibre.

“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. During the reporting period, the Company vigorously promoted the name list marketing for “Qian Ying Zhan Yi (千鷹展翼)” customer base, vigorously innovated in the expansion of channels for targeted customer acquisition under “Qian Ying Zhan Yi (千鷹展翼)”, fully promoted the establishment of “Fintech Cooperation Alliance under Qian Ying Zhan Yi (千鷹展翼科技金融生態合作聯盟)”, and cooperated with more than ten domestic well-known investment institutions to establish a joint marketing cooperation mechanism for science and technology enterprises, to accurately expand the base of quality customers. As a result, the “Qian Ying Zhan Yi (千鷹展翼)” customer base construction made new progress. At the same time, the Company continued to improve the comprehensive service model of investment and loan linking under “Qian Ying Zhan Yi (千鷹展翼)”, and worked closely with external investment institutions to focus on enterprises with new growth engines in strategic emerging industries, 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 25,376 registered customers under “Qian Ying Zhan Yi (千鷹展翼)”, representing an increase of 623 registered customers on the basis of customer base adjustment at the beginning of the year. The total amount of the credit lines granted to such customers amounted to RMB206.097 billion, and the balance of loans granted to such customers amounted to RMB36.728 billion with non-performing loan ratio of 0.65%. The cooperation coverage ratio with the first batch of enterprises listed on the Sci-Tech Innovation Board reached 64%.

The main purpose of the Company’s syndicated loan business is to enhance interbank cooperation and information sharing, and to spread the risks associated with large-amount loans. As at the end of the reporting period, the balance of syndicated loans amounted to RMB182.275 billion, up by 13.72% as compared with the end of the previous year.

Bill business

With respect to bill discounting business, during the reporting period, by leveraging on its Fintech advantages, the Company continuously optimised the processes for bill business by focusing on customer needs, enhanced the customer experience, and achieved growth in both the number of customers of bill business and bills direct discounting business. The Company had 59,544 customers of bill business, representing a year-on-year increase of 27.11%, and its bills direct discounting business amounted to RMB602.966 billion, representing a year-on-year increase of 32.51%, ranking second 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 RMB242.100 billion, representing an increase of 66.24% from the end of the previous year.

With respect to discounted bill transfer business, the discounted bills transferred to other banks or financial institutions amounted to RMB334.831 billion, with a year-on-year drop of 33.38% due to the impact of the New Regulation on Asset Management and other external policies during the reporting period, but the business volume continued to stay ahead in the industry.

With respect to bill rediscounting business, during the reporting period, the Company actively implemented inclusive finance and cooperated with the People’s Bank of China to provide precise support. Business in central bank bill rediscounting amounted to RMB94.396 billion, with a year-on-year growth of 103.08%. The volume of bill rediscounting continued to stay ahead in the industry.

Corporate customer deposits

During the reporting period, the Company enhanced the loyalty of its customers and overall contribution through innovation of deposit products while realising a steady growth in corporate deposits. As at the end of the reporting period, the balance of corporate customer deposits amounted to RMB2,955.692 billion, representing an increase of 6.52% as compared with the end of the previous year; the daily average balance per year amounted to RMB2,806.393 billion, representing an increase of 2.47% as compared with the previous year; the demand deposits accounted for 55.39% of the balance of the daily average deposits per year from our corporate customers. During the reporting period, the average cost ratio of deposits from corporate customers was 1.71%, up by 0.04 percentage point year-on-year.

Transaction banking business

With respect to the settlement and cash management, the Company has been committed to creating a unified payment platform for corporate payment and settlement, whereby firstly the Company launched the “All-in-one Cards for Company (公司一卡通)” which integrated functions of “deposit, withdrawal, transfer, payment and self-services”. Through unified account function management and information services and the launch of “Ji Zhang Bao (記賬寶)”, transaction identification, “C+ Transaction Keeper (C+交易管家)” and other products, the Company promoted the reconstruction of corporate account system, and innovatively launched “Zhang Hu Tong (賬戶通)” and other products to meet the customers’ needs of fund classification management, breakdown and reconciliation and customised interest calculation, and expanded the settlement scenarios of multi-accounts bookkeeping and management, so as to improve the management capability of corporate accounts. As at the end of the reporting period, the Company had a total of 1,811,500 customers using its cash management service, representing an increase of 5.95% as compared with the end of the previous year. Secondly, the Company, focusing on large-scale enterprise-level B2B industry Internet platform, innovatively created a “Cloud Bill (雲賬單)” payment platform for online and offline multi-level fund supervision, collection, payment and settlement. During the reporting period, the transaction volume of the payment platform amounted to RMB64.702 billion. Thirdly, the Company strengthened the extensive application of corporate aggregated collection business in four major industries including insurance, medicine, fast consumption and education as well as in social activities such as travel, convenience, medical and health care and campus, and promoted the development of integrated projects such as Smart Mall, Smart Business District and Smart Park, to improve the retail and wholesale linking effect and flow redirection. During the reporting period, the transaction volume of corporate aggregated collection business was RMB61.026 billion, representing a year-on-year increase of 492.08%. Fourthly, the Company upgraded the treasury management platform, of which the system performance was greatly expanded, and the Fintech applications such as face recognition were introduced to improve the security performance of the mobile APP. The development of “one-point access (一點接入)” was launched to access to the API interfaces of various banks. As at the end of the reporting period, the Company provided treasury management services to 2,595 group customers. The number of companies under the treasury management reached 60,600, and the number of transactions exceeded 4 million, representing a year-on-year increase of 24.80%.

In terms of trade finance, the Company proactively promoted the on- and off-balance sheet financing for trade finance customers and launched a number of featured products and services in an innovative way. With respect to international trade financing business, the Company utilised featured international trade financing products to meet the cross-border financing needs of strategic customers. At the same time, in accordance with the customer base positioning, the Company provided featured solutions such as “Engineering Guarantee (工程保)” business, “Making Payments on Behalf of Customers for Imports & Exports (進出口代付)” and international forfeiting secondary market (國際福費廷二級市場) business. In domestic trade financing, the Company proactively served the real economy, provided online convenient financing services for small and medium-sized enterprises, promoted the self-service management function of the “Invoice Cloud (發票雲)” platform as a fruit of Fintech innovation, and vigorously explored the application of this function in domestic factoring, domestic letters of credit, bills and refundable tax credits for small-sized enterprise customers. The Company integrated financial services into the projects associated with people’s livelihood, and promoted the “salary guarantee letter for migrant workers (農民工工資保函)” business to large-scale construction enterprises, so as to meet the needs of enterprises to use bank guarantee letters instead of paying deposits. Focusing on the customers’ deleveraging need, the Company devoted to promoting the featured factoring business and domestic forfeiting business. During the reporting period, the Company’s domestic featured factoring business amounted to RMB28.825 billion, representing a year-on-year increase of 125.40%. Domestic forfeiting business amounted to RMB48.333 billion, representing a year-on-year increase of 62.47%.

With respect to its cross-border finance, the Company proactively promoted online international business and trade settlement facilitation. During the reporting period, the Company was the first in the industry to launch the full-process online financial market product namely “Corporate APP self-service FX settlement (企業App自助結匯)”, further improving customer experience and service efficiency. By vigorously promoting the electronic bills system for trade in goods, the Company established “Jie Suan Tong (結算通)”, a comprehensive service plan for strategic customers, which led to the improvement of the effectiveness in the collection and payment business, thereby facilitating paperless operation and real-time exchange of remittance information as well as foreign exchange collection and payment under the trade in goods. As at the end of the reporting period, the onshore international settlements of the Company amounted to USD97.919 billion. The corporate foreign exchange settlements amounted to USD57.949 billion.

Offshore banking business

With respect to its offshore banking businesses, the Company returned to the origin of customer service, accelerated business transformation, deepened the establishment of segmentation-based customer service system, established the three major customer systems of offshore strategy, value and basic customers, focused on customers in the new economic industries, customers with new growth engines and companies proposed to be listed, implemented name list marketing, and continued to broaden the base of high-net-value customers. At the same time, the Company practiced Fintech strategy and promoted Fintech to empower the customers. During the reporting period, the Company developed applications such as marketing support, information collection, and business opportunity response platforms to optimise customer experience and improve operational efficiency. In response to the anti-money laundering requirements of offshore customers, the Company strengthened the construction of offshore anti-money laundering system, made in-depth customer background research, proactively promoted the application of Fintech in the construction of anti-money laundering system, thus improving key indicators of offshore anti-money laundering evaluation.

Investment banking business

During the reporting period, guided by the objective of building “the best customer experience bank”, the Company adhered to the strategy of integrating investment banking and commercial banking, and actively capitalised on asset organising and asset sales as the dual engines to achieve the steady development of investment banking business. The Company further improved its brand image in the market, and was awarded the “2019 Investment Banking Tianji Award for Universal Banks” in the “2019 Tianji Award for Banking Industry in China” organised by the *Securities Times*.

With respect to its bonds underwriting business, the Company further established its professional management team and strengthened the relationship management with its investors to enhance customer service capabilities, thus achieving best performance in history in terms of bonds underwriting volume and market ranking. The Company successfully led the underwriting of the first domestic perpetual bond for joint-stock bank, issued the first short-term financing bond for security company by way of book-building, and issued the first inter-bank medium-term note in supporting the construction of Guangdong-Hong Kong-Macao Greater Bay Area, and so on. During the reporting period, the bonds with the Company as the lead underwriter amounted to RMB287.838 billion, representing a year-on-year growth of 53.78%. The volume of credit bonds with the Company as the lead underwriter ranked second in the inter-bank market, up by two places as compared with the previous year, among which, it ranked second 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 continued to extend its footprint in the business segments of M&A financing and M&A financial advisory. In respect of M&A financing, during the reporting period, our M&A business realised M&A transaction of RMB38.527 billion, and our brand advantage was further enhanced. In respect of M&A financial advisory, the Company led and completed the control transfer transaction of two listed companies, and the brand building of the M&A financial advisory business achieved initial success.

With respect to its structural financing business, the Company focused on market deal matching business during transformation, a market trading system “Zhao Tou Xing (招投星)” was launched by introduction of Fintech, and the external port of the online applet was launched, to match the customer demand with the market professional investment institutions, and to satisfy the financing needs of enterprises through multi-channels. During the reporting period, the Company realised structural financing of RMB2.792 billion, and the scale of market deal matching business exceeded RMB50.0 billion.

With respect to its equity capital market business, combining with the macro themes of the State-owned Enterprise Mixed Ownership Reform and industrial upgrading, the Company actively researched and deployed market-oriented debt-to-equity conversion, enhanced customer experience with differentiated services, and deepened customer relationships, so as to promote the integrated operational benefits from customers. During the reporting period, the equity capital market business amounted to RMB2.907 billion.

Financial institution business

With respect to its financial institutions asset and liability business, the Company continued to deepen the management of financial institution customers and supported the liquidity management of the whole Bank. Based on adequate customer perception, the Company granted credits to financial institutions, adopted differentiated credit strategies for customers with different levels of risk, and prudently carried out credit granting for small and medium-sized banks with risk characteristics of aggressive business style, untimely disclosure of annual reports, and poor non-performing loan ratios. The Company implemented penetration management on financial institutions controlled by private capital, and thus effectively limiting the level of risk exposure under concentrated management. As of the end of the reporting period, the balance of financial institutions deposits of the Company amounted to RMB534.504 billion, representing an increase of 18.59% as compared with the end of the previous year. Among them, the total amount of financial institutions demand deposits from fund clearing, settlement and depository service reported a balance of RMB366.595 billion, accounting for 68.59% of the total amount. The Bank maintained a leading position in terms of scale and percentage of demand deposits among the small and medium-sized banks in China.

With respect to its depository service, the Company's security and future margin depository service was in stable operation, with third-party depository services extended to 102 securities companies and 10,293,900 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 395,500 customers at the end of the reporting period. Also, the Company entered into cooperation with 52 securities companies on stock options business, securing 25,300 customers at the end of the reporting period, and entered into cooperation with 121 future companies on fund transfer, securing 146,800 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 244, ranking first among all small- and medium-sized banks in China (according to the data released by the PBOC). There were 183 customers which participated indirectly through the Company 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 "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 the "Zhao Ying Tong (招赢通)" platform of the Company reached 2,288, and during the reporting period, the online business volume amounted to RMB402.812 billion.

Asset management business

As at the end of the reporting period, the balance of the Company's wealth management products (excluding structured deposits)⁷ amounted to RMB2,026.052 billion, representing an increase of 3.47% as compared with the end of the previous year. Among which, off-balance sheet wealth management products accounted for 98.35%; the balance of the funds raised from off-balance sheet wealth management ranked second among the commercial banks (according to the data released by the CBIRC). The net-value products that meet the requirements of the New Regulation on Asset Management amounted to RMB400.584 billion, accounting for 19.77% of the balance of wealth management products (excluding structured deposits), up by 5.73 percentage points as compared with the end of the previous year.

During the reporting period, from the perspective of serving the real economy and inclusive finance, the Company's asset management business scored a number of achievements in the following aspects.

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.

Firstly, the Company continued to promote the transformation of its products. During the reporting period, the Company actively promoted the transformation of wealth management products, and successively launched a variety of new products associated with different risk preferences to meet the diversified investment needs of customers, which gained wide recognition from customers. Also, the Company comprehensively enhanced customer investment and service experience, established full-process sales service mechanism covering pre-sale, in-sale and after-sale stages, improved product distribution, information disclosure, after-sale support and other related processes, and continuously strengthened investor education. The Company established regular review mechanism, and continuously optimised product portfolio and investment strategy in accordance with customer demands.

Secondly, the Company constantly optimised its asset structure. During the reporting period, the Company gradually adjusted its asset allocation structure, and directed the wealth management capital flows towards the real economy through investment in standardised assets and non-standardised assets. On one hand, the Company increased standardised asset investments, and bond investment was steadily expanded in scale while the allocation strategy was adjusted accordingly. As at the end of the reporting period, wealth management funds invested in the bond market reported a balance of RMB1,365.649 billion, and the proportion of bond assets was 63.02%, rose 9.10 percentage points as compared with the end of the previous year. On the other hand, the Company made non-standardised credit investments within the quota limit in strict compliance with the regulatory guidance, so as to maintain the support for real economy and meet the diversified financing needs of customers. The balance of wealth management funds invested in non-standardised assets of the Company amounted to RMB165.313 billion as at the end of the reporting period, and the quality of its non-standardised assets remained stable.

Thirdly, the Company improved its risk management capability. During the reporting period, the Company continued to attach great importance to risk management of asset management business, strictly implemented regulatory policy requirements, intensively introduced and revised a series of risk management systems, and leveraged on Fintech to strengthen the surveillance of market risk, credit risk management and post-investment management capabilities. By leveraging on centralised operation and system optimisation, the Company reduced its operational risks, and continuously improved and perfected the comprehensive risk management system that compatible with the asset management transformation. At the same time, the Company continued to strengthen the management of the entrusted institutions. The entrusted institutions that engaged during the reporting period were all large funds, securities companies and well-known insurance institutions with high rankings in the market. As at the end of the reporting period, the Company's leverage ratio of entrusted bond investment on behalf of customers was 131.10%.

Asset custody business

In the first half of 2019, the growth rate of assets under custody of the Bank declined, and the overall custody fee rate in the market was under pressure. As at the end of the reporting period, the balance of assets under custody of the Company was RMB12.76 trillion, representing an increase of 3.32% compared to the end of the previous year, and ranked second in the domestic custody industry (according to the data released by China Banking Association). During the reporting period, the Company realised a custodian fee income of RMB1.913 billion.

During the reporting period, the Company independently researched and developed the depositary business system and obtained the qualification of depositary business under the CBIRC's Pilot Program of Depositary Receipts. Thanks to its continuous optimisation of functions of the custodian system and business processes, the Company comprehensively enhance its customer experiences, effectively fulfilled the responsibilities of custodian and effectively prevented the risks associated with custody business. The professional services and leading technologies of the Company gained social recognition, and won the three awards of "Best Custodian Organisation in China", "Best Pension Custodian Organisation in China" and "Best Retail Fund Administrative Outsourcing" selected by *The Asset Magazine*, thereby further enhancing the influence of the Company in the custody business market.

Financial markets business

During the reporting period, the Company faced with the complexity of the domestic and foreign economy and financial market, the intensified volatility of the interest rate of the bond market, and the US dollar appreciating with strong momentum while the RMB exchange rate dropping after appreciation subsequently, which basically achieved break even as at the end of the first half of 2019. By flexibly adjusting the duration and position structure, and vigorously carrying out innovative business and implementing other strategies to actively hedge and smooth out the market volatility, the Company has achieved good returns.

With respect to RMB bond investment, in accordance with market fluctuations, the Company flexibly adjusted the portfolio duration of RMB bonds investment through in-depth study of macroeconomic situation and policies and actively carried out spread trading through range trading operations. At the same time, under the premise of preventing the occurrence of credit risk events, the Company adjusted the position structure of banking accounts according to market conditions in order to improve the portfolio yields. With respect to foreign currency bonds investment, the Company appropriately extended the portfolio duration of foreign currency bonds investment based on logical judgment of the international economic situation and market trends. The Company also grasped the opportunities arising from fluctuation in the spread of credit bonds and increased their range trading operation to effectively improve portfolio yields.

With respect to customer transaction business, the Company focused on the customers on the name list, actively promoted product innovation and strengthened coordination. The Company launched the "CMB Hedge Trading Platform (招銀避險交易平台)", issued the "Exchange Rate Risk Management White Paper for Chinese Enterprise (2019) (《中國企業匯率風險管理白皮書(2019)》)", and continually improved the "CMB Hedging (招銀避險)" service system, leading to the continuous growth in the number of customers and transaction volume. Meanwhile, the Company leveraged on Fintech to continuously strengthen system construction and actively promoted Fintech in the fields of market quotation and quantitative trading.

During the reporting period, the trading volume of RMB bonds of the Company reached RMB3.40 trillion, representing a year-on-year increase of 28.30%; the trading volume of RMB exchange rate swaps reached USD413.851 billion, representing a year-on-year increase of 4.16%; the trading volume of corporate customer derivatives reached USD14.709 billion, representing a year-on-year increase of 41.49%. At the same time, the Company actively participated in the two-way opening of the bond market, provided quality services to overseas investors, and received the award of "Excellent Quoting Organisation for Bond Connect".

3.10.3 Distribution channels

The Company provides products and services via multiple distribution channels. The distribution channels of the Company 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 centers 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 139 branches, 1,679 sub-branches, one dedicated branch-level operation center (credit card center), one representative office, 3,232 self-service centers, 9,663 self-service machines (including 1,060 automatic teller machines and 8,603 deposit-taking and cash withdrawal machines) and 13,585 visual counters in more than 130 cities of Mainland China. The Company also has a branch in Hong Kong; a branch and a representative office in New York, the United States; a branch 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

During the reporting period, the Company constantly improved the e-banking channels and further increased operational efficiency. As at the end of the reporting period, the Company's replacement rate of comprehensive service counter through the retail electronic channel was 98.07%; the rate of rerouting customers from the service counters to visual counters was 92.44%; and the Company's replacement rate of transaction settlement through the whole-sale electronic channel was 87.78%.

Major retail e-banking channels

CMB APP

During the reporting period, CMB APP continued to build a leading Fintech ecosystem in the industry. On one hand, it insisted on deepening the operation of core financial scenarios of deposit, loan and remittance, and on the other hand, it extended its services to the pan-financial scenarios, creating a platform of quality financial content and lifestyle. The Company also planned the digital customer acquisition through traffic and the construction of operating system and made certain achievements, providing rich, delicate and open integrated services to over 90,000,000 users.

As at the end of the reporting period, the number of CMB APP users in aggregate was 92,758,000, with 45,826,300 monthly active users, a total number of 2.823 billion logins and the average monthly logins of 11.30 per user during the reporting period. Meanwhile, the CMB APP transaction volume increased rapidly, with 797 million APP transactions and a total transaction amount of RMB16.67 trillion during the reporting period, up by 25.31% and 41.99% respectively, as compared with the corresponding period of the previous year. Among all these transactions, the number of wealth management transactions originated by 5,139,500 wealth management customers using CMB APP accounted for 81.80% of the Company's number of retail wealth management transactions, and a total wealth management sales value reached RMB3.91 trillion, representing an increase of 30.33% as compared with the corresponding period of the previous year, and comprised 69.88% of the Company's retail wealth management sales.

CMB Life APP for credit card

During the reporting period, the Company focused on Fintech, laid out the upgrading of mobile terminal digital operation capability, focused on high-frequency daily consumption scenarios to create quality life, and strived to achieve the "best customer experience". As at the end of the reporting period, the total number of CMB Life APP users was 80,839,400, of which non-credit card users accounted for 28.74%. During the reporting period, the maximum number of daily active users of CMB Life APP reached 7,740,400 and the number of monthly active users was 39,284,800. Among all users, the youth 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 management. During the reporting period, the total number of potential credit card customers contributed by CMB Life APP reached 1,317,100, and consumer financial transactions successfully completed through CMB Life APP accounted for 48.01% of credit card consumer financial transactions, demonstrating further recognition of the strategic position of CMB Life APP.

Smart WeChat customer service

As an important channel for the Company's brand promotion and business promotion, "China Merchants Bank" WeChat Official Account, through continuous high-frequency interaction with young customer groups over high-quality content and fun activities, further enhanced the value and brand reputation of online marketing of the Company. As at the end of the reporting period, the "China Merchants Bank" WeChat Official Account had accumulated 20,532,200 followers.

During the reporting period, the Company continued to promote the ecological layout of 1+N services by focusing on CMB Life APP and complementing with third-party channels. In order to sustain the enormous service traffic, the Company leveraged on high-tech cores such as Big Data and artificial intelligence to create intelligent service robots, traffic distribution and decision-making robots, intelligent agent assistant robots, service analysis robots and quality control robots, covering the five modules namely user insight, traffic distribution, service interaction, demand re-excitation, and management improvement, focusing on Fintech to improve service efficiency and customer experience. As at the end of the reporting period, the Company gained a total of 131 million fans through third-party credit card channels (mainly from WeChat, Alipay service window and official QQ account).

Direct banking

The Company's Network Operation Service Center provides instant, comprehensive, prompt and professional services to its customers through remote methods such as telephone, network and video.

In the first half of 2019, the Company constantly improved its service capability and customer experience. As a result, the manual telephone access ratio reached 97.75%; the percentage of manual telephone responses within 20 seconds reached 93.74%; and the satisfaction ratio of its telephone customer service reached 99.73%.

In order to keep abreast with the trend of its customers increasingly moving to the mobile Internet, the Company actively strengthened its network service capabilities. During the reporting period, the online interactive services accounted for 89.31% (referring to the proportion of online text services in various types of remote consulting services), showing the online text interactive services to be the mainstream of remote consulting services. At the same time, the Company accelerated the pace of evolution into intelligent services, deepened the training and learning of intelligent robots, and enhanced algorithm optimisation. During the reporting period, the intelligent self-services accounted for 75.45% (referring to the proportion of services undertaken by intelligent robots in various remote consulting services). During the reporting period, our visual counters received an average of 2,520,000 incoming calls per month, with the highest number of single day incoming calls exceeding 132,100, showing high replacement effect of in-branch non-cash transactions.

Major wholesale e-banking channels

Online corporate banking

Focusing on personalised customisation and intelligent customer service, the Company comprehensively optimised the scenario interface centered on user experiences and upgraded online corporate banking to an integrated financial service and management platform. As at the end of the reporting period, the number of online corporate banking customers of the Company reached 1,804,700, representing an increase of 6.86% as compared with the end of the previous year, among which the number of monthly active customers was 861,800, representing an increase of 4.66% as compared with the end of the previous year. The total number of online corporate banking transactions of the Company reached 134,700,200 and total value of transactions amounted to RMB52.84 trillion.

CMB Corporate APP

In order to meet the growing mobile financial needs of customers, focusing on financial scenarios and non-financial scenarios, the Company built CMB Corporate APP that integrated account management, transaction payment and online foreign exchange services. During the reporting period, the Company launched a number of branch services and operation activities with local features on the CMB Corporate APP, which effectively improved customer experience and activity. As at the end of the reporting period, the number of customers of CMB Corporate APP reached 758,000, representing an increase of 41.97% as compared with the end of the previous year, with 317,800 monthly active customers; the number of transactions reached 16,393,200 and total value of transactions amounted to RMB761.800 billion.

3.10.4IT and R&D

During the reporting period, focusing on the objective of "building itself into a bank with the best customer experience", the Company built leading Fintech infrastructure, deepened the integration of business and technology, and comprehensively promoted the scale transformation of lean R&D. The Company maintained the leading position of the technology team in basic capabilities, and the business development of the entire Bank is supported by three software centers in Shenzhen, Hangzhou and Chengdu and two data centers in Shenzhen and Shanghai.

With respect to basic platform construction, focusing on “network-based, digitised and intelligence-oriented” principle, the Company built a Cloud + API open IT architecture, established a large-scale IT infrastructure based on Cloud Native technology, released a new generation of PaaS (Platform as a Service) platform based on docker to speed up the cloud-based application for all businesses across the whole Bank. The Big Data cloud platform was upgraded, and the overall capacity of the data lake was increased to almost 5PB. The openness of the Bank was enhanced, and in aggregate 130 APIs were released. The Company expanded its Blockchain ecology, and completed 20 application projects in cross-border innovative payment, asset securitisation, supply chain finance and Blockchain electronic invoice. **With respect to the development of application systems**, the Company accelerated the digital transformation of Retail Finance 3.0, focused on the “core financial + pan-financial” scenario ecosystem, enriched the scenarios in CMB APP and CMB Life APP, promoted the digital transformation of outlets, and launched a new integrated low-cabinet dual-screen terminal device and AI-based smart customer services. Also, the Company promoted smart ecological scenario projects and established external scenarios such as convenience platform, social security, financial non-tax business, cloud-based payment service, smart parking, education and medical and health care, and commenced operation of the industrial Internet financial cloud platform for multi-core enterprises, multi-funds and multi-products. **With respect to overseas support**, the Head Office continued to manage and support the construction and improvement of the core business systems and data warehouses of overseas branches, as well as the operation and maintenance of IT systems, which greatly reduced the IT costs of overseas branches, enhanced the capabilities of IT systems and supported the business development of overseas branches. During the reporting period, the version upgrade of the core business system of Sydney Branch and New York Branch and the centralised management of the core system of the Hong Kong Branch under the Head Office were completed. **With respect to security and stability**, under the backdrop of increasingly complicated IT infrastructure and accelerated iteration and delivery, the overall operation of the system was stable in the first half of the year, and the availability of the core accounting system and the backbone network kept ahead in the industry. **With respect to “industry – university – science” partnership**, the Company cooperated with universities and scientific research institutions in the areas of intelligent response, computer visualisation, natural language processing, knowledge engineering and other aspects, and accelerated the implementation of research results in the fields of Cloud Native technology, distributed database and automated operation and maintenance.

3.10.5 Overseas businesses

Hong Kong Branch

Established in 2002, the Hong Kong Branch is the first branch duly established overseas by the Company. As a full-licensed bank and a registered institution with SFC, the Hong Kong Branch may engage in comprehensive commercial banking businesses, including 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, settlement, trade facilities, bilateral loans, syndicated loans, cross-border M&A portfolio solutions asset custody and asset management, and engages in transaction of funds among financial institutions, bond trading 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 and private wealth management 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,, by giving full play to its own characteristics and leveraging the advantages of Hong Kong’s status as an international financial center, the Hong Kong Branch actively served the “going global” strategy and focused on the strategic opportunities such as “The Belt and Road” initiative, “Internationalisation of RMB” and “Guangdong-Hong Kong-Macao Greater Bay Area”, greatly promoted cross-border business coordination, continually developed the local customer base, constantly expanded its market share, and provided customers with strong financial support and good service. Meanwhile, the Hong Kong Branch further strengthened risk compliance and internal basis management, constantly innovated and improved its product and service systems and strove to explore the asset operation model. As a result, all its businesses achieved healthy development. During the reporting period, the Hong Kong Branch realised net operating income of HK\$1.588 billion and a profit before tax of HK\$1.225 billion.

New York Branch

Established in 2008, the New York Branch of the Company represents the first branch of a Chinese bank approved in the U.S. since the US Foreign Bank Supervision Enhancement Act in 1991. The New York Branch leveraged on its geographical advantage of locating in the global financial center and 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, in order to mitigate the adverse effects of Sino-US trade friction, the New York Branch prudently and steadily developed its local business under the premise of adhering to compliance operations and stabilising cross-border business. Positive progress and stable operations were achieved in the businesses of cross-border M&A, project financing, fund financing, financial market, transaction banking, investment banking advisory, asset management and private banking. During the reporting period, the New York Branch realised a net operating income of USD50,599,200 and a profit before tax of USD26,217,700.

Singapore Branch

Established in 2013, the Singapore Branch of the Company is positioned as a significant cross-border financial platform in Southeast Asia. Based in Singapore and expanding to Southeast Asia, the Singapore Branch takes cross-border finance and wealth management as its core and strives to provide all-round non-stop solutions for cross-border finance to the Chinese companies "going global" and the companies "brought in" located in Singapore and other Southeast Asian countries. Its major services and products include: funds settlement, deposit service, foreign exchange trading, coordination financing, trade financing, M&A loans, syndicated loans, real estate trust leveraged financing and delisting financing. With respect to wealth management business, the Private Banking Center (Singapore) provides private banking products and value-added services with integrated investment and financing solutions, such as cash management, asset allocation and heritage of wealth to high-net-value customers.

During the reporting period, the Singapore Branch adhered to the operating strategy of concurrent development of cross-border financing business and local business, focused on the strategic customers to "go global" from the Head Office and branches of the Company, and attached importance to customers with new growth engines. Moreover, it proactively studied the opportunities arising from the infrastructure construction projects of the countries involved in "the Belt and Road" initiative and actively promoted the project financing of Singaporean government-linked enterprises in China. During the reporting period, the Singapore Branch achieved a net operating income of USD10,228,700 and a loss before tax of USD5,994,000, mainly due to the decrease in non-interest income and the increase in provision.

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 financial service platform of the Company in Europe on the basis of its advantages of the parent bank combined with Luxembourg features.

During the reporting period, the Luxembourg Branch adapted itself to changes in the relevant policies, actively expanded European local business and achieved steady business growth through improving efficiency and strengthening cooperation with other banks and financial institutions at home and abroad. During the reporting period, the Luxembourg Branch realised a net operating income of €8,689,500 and a profit before tax of €3,646,400.

London Branch

Established in 2016, the London Branch of the Company 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 and cross-border M&A financing) and settlement. 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 three years since its establishment, our London Branch has operated in compliance with regulatory requirements. Its business has developed steadily.

During the reporting period, based on the 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, the London branch steadily developed its trade finance business, and innovated and developed business varieties to launch a new trade finance product, "Making Payments on Behalf of Customers for Imports & Exports for the Second Time (二次進出口代付)". During the reporting period, the London Branch realised a net operating income of USD10,606,100 and a profit before tax of USD6,221,000.

Sydney Branch

Established in 2017, the Sydney Branch of the Company relies on the economic and trade exchanges between China and Australia and focuses on cross-border Sino-Australian and local markets in Australia and New Zealand to provide cross-border and local customer groups with exclusive financial services through product portfolios mainly include cross-border investment and financing services, cross-border M&A, syndicated loans, trade financing and settlement, foreign exchange transactions, and interest rate exchange hedge, in addition to its basic banking services. At the same time, it steadily carried out private banking business and leveraged on the advantages in cross-border finance, investment and commercial banking and public-private linkages to achieve balanced and distinctive development. 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 adhered to the strategic direction of "Laying a foundation with characteristics" and made great efforts to promote the development of various businesses. During the reporting period, the Sydney Branch realised a net operating income of AUD7,922,300 and recorded a loss before tax of AUD5,364,300, mainly due to the decrease in non-interest income and the increase in provision.

3.10.6 CMB Wing Lung Group

Founded in 1933, CMB Wing Lung Bank has a registered capital of HK\$1.161 billion as at the end of the reporting period, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of CMB Wing Lung Bank and its subsidiaries comprise deposit-taking, lending, private banking and wealth management, investment, securities, credit cards, NET banking, CMBWLB Wintech (招商永隆銀行一點通) mobile banking, 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, CMB Wing Lung Bank has one head office, 34 branches in Hong Kong, four branches and sub-branches in Mainland China, one branch in Macau, and two branches located respectively in Los Angeles and San Francisco, the United States.

During the reporting period, CMB Wing Lung Group posted an attributable profit to shareholders of HK\$2.261 billion and achieved a net operating income of HK\$3.588 billion, of which net interest income was HK\$2.675 billion and net non-interest income was HK\$913 million. The cost-to-income ratio was 30.95%.

As at the end of the reporting period, the total assets of CMB Wing Lung Group amounted to HK\$325.351 billion. Total equity attributable to shareholders amounted to HK\$37.848 billion. Total loans and advances to customers (including trade bills) amounted to HK\$174.019 billion. Deposits from customers amounted to HK\$231.213 billion. The loan-to-deposit ratio was 69.02%. The non-performing loan ratio (including trade bills) was 0.57%. The total capital ratio was 19.67%, and the average liquidity coverage ratio for the first and second quarter of 2019 was 172.43% and 162.24% respectively, all above the regulatory requirements.

For detailed financial information on CMB Wing Lung Group, please refer to the 2019 interim results of CMB Wing Lung Bank, which is published on the website of CMB Wing Lung Bank (www.cmbwinglungbank.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 in 2008 and wholly owned by the Company with a registered capital of RMB6.0 billion. CMB Financial Leasing has adhered to its operation and development strategy of “internationalisation, professionalisation and differentiation”, designed its layout of aircraft and vessel assets by the strategy of internationalisation, upgraded key national equipment manufacturing under the professional support, responded to the construction of “The Belt and Road” initiative by provision of differentiated service and launched the financial solutions for the ten sectors of aviation, shipping, energy, infrastructure, equipment manufacturing, environment, health industry and cultural tourism, public transportation, smart interconnection & logistics 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 RMB188.240 billion, and its net assets amounted to RMB19.209 billion. It realised a net profit of RMB1.365 billion during the reporting period.

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. At present, the business scope of CMB International Capital and its subsidiaries mainly covers corporate finance, asset management, wealth management, stocks and structured finance.

As at the end of the reporting period, the total assets of CMB International Capital amounted to HK\$28.774 billion, and its net assets amounted to HK\$9.091 billion. It realised a net profit of HK\$622 million during the reporting period.

3.10.9 China Merchants Fund

Established in 2002, China Merchants Fund had a registered capital of RMB1.31 billion. As at the end of the reporting period, the Company had 55% of equity interest 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 RMB6.864 billion, and its net assets amounted to RMB5.031 billion. The total size of the asset management business (including China Merchants Fund and its subsidiaries) amounted to RMB919.025 billion. It realised a net profit of RMB456 million during the reporting period.

3.10.10 CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance, a joint venture of the Company, was established in Shenzhen in 2003, and it 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. As at the end of the reporting period, the Company had 50% of equity interest 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 RMB53.115 billion, and its net assets amounted to RMB6.618 billion. During the reporting period, CIGNA & CMB Life Insurance realised a premium income of RMB9.622 billion and a net profit of RMB713 million.

3.10.11 Merchants Union Consumer Finance

Merchants Union Consumer Finance, a joint venture of the Company, was established in Shenzhen in 2015, and it is the first consumer finance company in China established under the framework of the Closer Economic Partnership Arrangement (CEPA), with a registered capital of RMB3.869 billion. As at the end of the reporting period, the Company and its wholly-owned subsidiary, CMB Wing Lung Bank, jointly hold 50% of equity interest in Merchants Union Consumer Finance. Merchants Union Consumer Finance is mainly engaged in the granting of personal consumption loans.

As at the end of the reporting period, the total assets of Merchants Union Consumer Finance amounted to RMB76.635 billion, and its net assets amounted to RMB8.603 billion. During the reporting period, Merchants Union Consumer Finance realised an operating income of RMB4.606 billion and a net profit of RMB710 million.

3.11 Risk Management

The Company 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

While keeping abreast of the macroeconomic and financial development and adhering 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)", the Company conducted an overall planning, made breakthroughs in key areas and took various measures to seek "temporary solutions" and imposed "final solutions" at the same time, aiming to establish itself as a "leading risk management bank" and comprehensively improve the risk management capabilities.

Firstly, the Company comprehensively examined and systematically established a comprehensive risk management system. By re-examining the comprehensive risk management system from multiple dimensions of institutions, products and processes, eliminating management blind spots, in the means of information technology, risk measurement, centralised management, portfolio management and panoramic risk view, the Company empowered the comprehensive risk management. **Secondly, the Company continuously optimised the asset structure from three dimensions, namely customers, industries and products.** By adhering to the credit asset layout led by the strategic customers of the Head Office and branches, the Company deepened the policy research and development of credit granting template for new growth engines, and increased the credit supply for industries with new growth engines such as the strategic emerging industries and the transformation and upgrading of traditional industries. The Company has also promoted the credit granting for micro-finance loans and for small- and micro-sized enterprises through digitalised customer acquisition, online loans and other models, and nurtured professional skills in project financing, industrial Internet, direct financing and other services. **Thirdly, the Company constantly carried out multi-dimensional risk screening while preventing and controlling risks in a perspective manner.** With close attention to risks associated with customers in key areas, during the reporting period, the Company continued to conduct risk screening for customers with large-scale risk exposure, inter-bank customers, P2P, private equity institutions and cooperative institutions, optimised risk pre-warning and reporting mechanisms, and established a large-scale risk monitoring and control system. The Company also improved the sensitivity and perspectiveness of risk identification, so as to achieve early pre-warning and early disposal. **Fourthly, the Company increased the channels for non-performing assets disposal to effectively dispose of non-performing assets.** With reinforcement on the recovery of non-performing assets by cash collection while continuously promoting the write-off of non-performing assets and securitisation of assets, the Company proactively explored debt-to-equity conversion, made use of a number of methods to manage risk assets and achieved effective and efficient non-performing assets disposal in a compliant manner. **Fifthly, the Company consolidated risk management foundation and accelerated the transformation of risk and compliance management towards imposing final solutions.** By attaching great importance to the building of professional risk management capabilities, the Company has strengthened the systematic management of the system, solidified business processes, established operational paradigms, and implemented post-loan supervision and inspection mechanism to continuously promote the optimisation of the entire credit granting process. **Sixthly, the Company deepened the application of Fintech services.** Based on internal and external data, the Company has established a Big Data risk data modeling and analysis platform, independently developed online customer intelligence rating system based on machine learning algorithm, improved customer knowledge graph, promoted intelligent policy interpretation and formulation, improved intelligent pre-warning system, and promoted risk management to transform in a continuous and deep manner.

During the reporting period, the Company's 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 41(a) to the financial statements.

3.11.2 Management of large-scale risk exposure

In accordance with the "Management Measures for Large-Scale Risk Exposure of Commercial Banks" (CBIRC Order 2018 No. 1) (《商業銀行大額風險暴露管理辦法》(銀保監會2018年1號令)) issued by the CBIRC, large-scale risk exposure refers to the credit risk exposure (including various credit risk exposures in the banking book and trading book) to a single customer or a group of related customers of a commercial bank that exceeds 2.5% of its net Tier 1 capital. The Company has incorporated large-scale risk exposure management into its overall risk management system, and measured and dynamically monitored changes in large-scale risk exposure, so as to effectively controlled customer concentration risks. As at the end of the reporting period, other than customers with regulatory exemption, single non-financial institution customers, group non-financial institution customers, single financial institution customers and group financial institution customers of the Company that reached the standards of large-scale risk exposure were all in compliance with the regulatory requirements.

3.11.3 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 the Company in that country or region, or other loss to the Company 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 provisions 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 the operations of the Company.

3.11.4 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 faced by the Company.

Interest rate risk management

Trading book

The Company uses various risk indicators, including volume indicators, market risk value indicators (VaR, covering interest rate risk factors of various currencies and durations 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 extremely unfavorable conditions of the market. Major interest rate sensitivity 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 annual 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.

In the first half of 2019, the downward pressure on the economy continued, and various domestic economic data continued to drop over the course. Interest rate in the monetary market continued with the downward trend, especially since May 2019, the central bank has increased SLF (Standing Lending Facility) and rediscounting amounts, increased brokerage short-term balance, and further cut interest rate for small and medium-sized banks, which caused the terminal interest rate to shift down generally. However, as the economic fundamentals remained weak overall and credit defaults continuously emerged, the market remained prudent in credit financing, the differentiation in low rating interbank deposits spreads intensified, and corporate credit bond spreads remained high. In respect of overseas, the US economy slowed down. In June 2019, the Federal Reserve lowered its inflation expectations, some members turned into doves, and long-term US treasury interest rates fell significantly and showed upside down, resulted in increased overall expectation of market interest rate cuts.

The investment scope of the trading book of the Company focused on RMB bonds, especially domestic interest rate bonds, and had strict control on credit bond investments. Under the downward trend of domestic and foreign bond yields, the market value and floating profit of the investment portfolio for trading book both increased, and various interest rate 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 comprises 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 central bank's monetary policy overall maintained a stable tone, and market interest rates were at a low level with fluctuations. 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 flexible adjustment to the strategy of the proactive management of interest rate risks. The Company moderately controlled the durations of bonds investments, grasped the opportunities of reasonably adequate liquidity, and obtained long-term funds through active liabilities, so as to maintain the balance between liquidity and profitability. At the same time, the Company paid close attention to the central bank's policy trends on deepening market-oriented reform of interest rate and strengthened the impact analysis and countermeasure research on the unification of interest rates. The Company complied with the Guidelines on the Management of Interest Rate Risk of Banking Book of Commercial Banks (Revised) issued by the CBICR in May 2018 to implement various interest rate risk management requirements of banking book. The results of stress test showed that the various indicators stayed within the limits and pre-warning values, and the bank account-related interest rate risks were confined at a relatively low level.

Exchange rate risk management

Trading book

The Company uses the risk indicators such as risk exposure indicator, market risk value indicator (VaR, covering foreign exchange rate risk factors of various currencies 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, and changed 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 annual 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.

In the first half of 2019, Sino-US trade friction became the most important driving factor in the global foreign exchange market. The two-way fluctuations in the exchange rate of USD against RMB increased with the negotiations. Various economic data in Europe and the United States did not meet the expectations. Many globally renowned institutions believed that the global economic recession may intensify, the sentiment of market risk aversion increased, and the price of gold reached a high level of more than USD1,300 per ounce.

Under this background, the Company strengthened the control of the quota indicators such as the exposure of proprietary business, sensitivity index and stop-loss, and all exchange rate risk indicators of trading book were within the target range, and mainly relied on foreign exchange trading business on behalf of customers and precious metal business to obtain stable spread income.

Banking book

The primary exchange rate risk of banking book of the Company comes from the 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 scientific reference for the management's decision-making. In the face of the complicated international economic landscape in 2019, the Company strengthened its analysis of the macro-economy in the United States and Sino-US trade frictions, and the exchange rate risk exposure was controlled within a reasonable range. As at the end of the reporting period, the exchange rate risk of the Company is generally stable with all the core limit indicators, general scenarios and stress testing results satisfying the regulatory limit requirement.

For more information about the Company's market risk management, please refer to Note 41(b) to the financial statements.

3.11.5 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. In view of the various aspects and wide range of operational risks, the Company's operational risk management will, based on the principles of cost-revenue matching and input-output balance, vigorously strengthen the establishment of operational risk management system, implement internal control system, continue to carry out various businesses steadily and reduce or prevent operational risk losses with a certain level of cost. In the process of operational risk management, within the risk limits set by the Board of Directors, the Company will, through measures such as further improving the risk management mechanism, strengthening risk prevention and control in key areas, conducting risk monitoring and pre-warning, improving assessment and evaluation mechanism, and cultivating operational risk culture, so as to further improve operational risk management capabilities and effectiveness, and prevent and reduce operational risk losses.

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 system. Firstly, the Company refined the key points and guidelines for operational risk management. Secondly, the Company strengthened the control of risks associated with key areas, carried out risk screening on P2P, private equity funds, unlicensed businesses and payments, discounted business bills and other areas, and strengthened risk management and control. Thirdly, the Company optimised and improved its management tools. Through the inspection of key risk indicators, the Company examined and adjusted indicators from various perspectives, so as to further strengthen the operational risk reporting mechanism, optimise the operational risk assessment mechanism and economic capital allocation plan of operational risk. Fourthly, the Company strengthened the management of outsourcing-related risk, promoted the implementation of outsourcing-related risk management policies, prudently accessed and evaluated the types of products and services to be outsourced, and expanded the scope of outsourcing-related risk monitoring. Fifthly, the Company strengthened the management of IT risk and business continuity management, and conducted information technology process inspection. Sixthly, the Company further improved the performance of operational risk management system, and promoted the utilisation of operational risk data analysis platform. Seventhly, the Company enhanced the empowerment of the branches, and conducted various forms of training for operational risk management personnel at domestic and overseas branches to improve the operational risk management capabilities of the branches.

3.11.6 Liquidity risk management

Liquidity risk refers to the Company's inability to obtain sufficient funds in a timely manner at a reasonable cost to cope with the risks of asset growth, repayment of debts due or other payment obligations. The liquidity risk management of the Company is subject to continuous management based on the principles of prudence, forward-looking and comprehensiveness. The Company maintained cautious attitude towards liquidity risk, which is more appropriate for the current development stage of the Company.

Based on the principle of separation of policy formulation, strategic implementation and supervision functions of liquidity risk management, the Company established a liquidity risk management governance structure to clarify the responsibilities and reporting routes of the Board of Directors, the Risk and Capital Management Committee, the Board of Supervisors, senior management, special committees and relevant departments in terms of liquidity management, so as to improve the effectiveness of liquidity risk management.

In the first half of 2019, the central bank maintained a prudent monetary policy and the liquidity remained reasonably adequate. 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 promote the growth of proprietary deposits, through measures such as strengthening the guiding of marketing strategies for key customer groups, strengthened the control of key timings, and promoted the steady growth of core deposits through various measures. Secondly, the Company dynamically supported the investment of credit assets, and continued to optimise the asset structure, in order to achieve smooth operation of assets and liabilities. Thirdly, the Company strengthened active liability management in all aspects and channels, enhanced cooperation with counterparties, expanded diversified financing channels, and improve the capability of treasury financing. Fourthly, 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, flexibly conducted short term and medium- to 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, so as to improve proactive risk management. 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 duration matching management of its assets and liabilities. Sixthly, the Company tested and improved the liquidity contingency plan and emergency plan, and effectively improved the ability to respond to liquidity risk events through regular liquidity risk emergency drills.

As at the end of the reporting period, the Company's liquidity coverage ratio was 172.69%⁸, representing 72.69 percentage points higher than the minimum requirement of CBIRC. The net stable funding ratio was 120.86%⁹, representing 20.86 percentage points higher than the minimum requirement of CBIRC, indicating that the Company had sufficient funding sources to meet the needs of sustainable and healthy development of the business. 11% of the total RMB deposits and 5% of the total foreign currency deposits were required to be placed with the PBOC. In summary, the Company's liquidity indicators remained at healthy levels, deposits maintained steady growth, liquidity reserves were sufficient and overall liquidity was at a safe level.

The liquidity risk management of the Company maintained at a high level in the industry, and met the various requirements of the Administrative Measures on Liquidity Risk of Commercial Banks issued by the CBIRC in May 2018.

For more information about the Company's liquidity risk management, please refer to Note 41(c) to the financial statements.

3.11.7 Reputational risk management

Reputational risk refers to the risk that the Company might be negatively evaluated by relevant stakeholders 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 the reputational risk management system and formulated 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.

⁸ The liquidity coverage ratio is an external regulatory indicator – the Company's calibre.

⁹ The net stable funding ratio is an external regulatory indicator – the Company's calibre.

During the reporting period, the Company carried out an iterative upgrade for the existing public opinion surveillance system to achieve the function of automatic pre-warning for the negative public opinions of branches, which effectively improved the efficiency in the response to public opinions. Relevant information in respect of material reputation risk events was released by the Company based on the principles of timely, appropriate, open and transparent, orderly and effective management manner with a focus on analysing public opinions in real time, dynamically adjusting the solutions, thereby minimising the negative impact arising from the events.

3.11.8 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 set up three lines of defence for compliance risk management and the double-line reporting mechanism through the establishment of organisational management structure comprising the risk and compliance management committees, compliance supervisors, compliance officers and legal and compliance departments under the Head Office and its branches as well as compliance supervisors at branch and sub-branch levels, continuously improved risk management techniques and management procedures and established a complete and effective compliance risk management system to achieve effective control of compliance risks.

At present, in conjunction with increasingly stricter financial regulations and the escalating pressure for banks on compliance, the Company, against this backdrop, rigorously implemented various regulatory policies, fulfilled system requirements and strengthened compliance risk management and control by adopting the following internal control compliance management measures: firstly, formulating and issuing the “Guidelines on Internal Control and Compliance Work of the Bank in 2019”, mapping out plans for the management of compliance on internal control throughout the Bank; secondly, carrying out the “Rectification of Disorders and Promotion of Compliance” in accordance with the requirements of the CBIRC and the Company’s specific arrangements, which has formed a long-term mechanism for rectification and whereby, laying out a solid foundation for the high-quality development of the Company; thirdly, strengthening the understanding of policies and the circulation and delivery of new regulations, identifying and assessing the compliance risks associated with new products, new businesses and major projects, supporting value creation within the framework of laws and compliance, revising and improving relevant internal regulations according to new regulatory requirements and effectively implementing the system based on the practice; fourthly, proactively providing multi-level compliance education and training, promoting the “Compliance Courses of Branch Leaders and Compliance Officers” and “Compliance Seminars of Sub-branch Leaders and Compliance Supervisors” activities in an orderly manner in an effort to enhance employees’ awareness on compliant operation across the Bank; fifthly, strengthening employee behavior management, conducting special investigations in accordance with regulatory requirements and internal management on top of the normalisation of investigation on employees’ abnormal behaviors, while at the same time increasing its efforts in applying employees’ behavior management tools such as keeping a list of minor violation points and name list of violating employees and conducting due diligence investigation on termination of employment; and sixthly, continuously enhancing efficiency of rectification of issues and violation accountability and increasing the intensity of assessment on internal control and compliance to ensure the effectiveness and seriousness of internal control and compliance.

3.11.9 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 its own actual conditions. It has also developed and launched an anti-money laundering monitoring system, established an anti-money laundering organisational system, and had a dedicated anti-money laundering team to ensure the sound operation of business throughout the Bank.

During the reporting period, the Company fulfilled its anti-money laundering obligations and took various measures to ensure the compliance and effectiveness of its anti-money laundering. These measures included but not limited to, further optimisation of the compliance management system and institutional system on anti-money laundering of the Company in accordance to the “Guidelines for Risk Management of Money Laundering and Terrorism Financing for Legal Entities of Financial Institutions (Trial)” and “Administrative Measures for Anti-Money Laundering and Anti-Terrorism Financing in Banking and Financial Institutions”, carried out money laundering self assessment across the Bank, tremendously improved the quality of anti-money laundering, conducted in-depth inspection on various types of money laundering and prevented all kinds of risks associated with money laundering so as to continuously strengthen the identification, assessment and management of money laundering risks of the businesses and products, and effectively embed anti-money laundering compliance requirements into business processes and systems; proactively promoted the application of artificial intelligence in anti-money laundering, and continuously optimised anti-money laundering monitoring systems, name list system of anti-money laundering and risk rating systems; developed and launched customer due diligence system to provide systematic support for improving the effectiveness of anti-money laundering across the Bank; being strictly in compliance with the “Notice of the People’s Bank of China on Strengthening the Identification of Anti-Money Laundering Customers” and other regulatory policies, the Company has been engaged in ongoing efforts to carry out beneficiary identification, implemented follow-up risk control measures for suspicious transactions reported and strengthened the management and control of customers associated with high risks.

3.12 Profit Appropriation

The profit appropriation plan for 2018

The profit appropriation plan of the Company for 2018 was considered and approved at its 2018 Annual General Meeting held on 27 June 2019.

10% of the audited net profit of the Company for 2018 of RMB75.232 billion, equivalent to RMB7.523 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the risk assets, equivalent to RMB6.028 billion, was appropriated to the general reserve. Based on the 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 RMB0.94 (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 2018, 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 2019

The Company would not distribute interim dividend for the first half of 2019, nor would it transfer any capital reserve into share capital (for January-June 2018: nil).

Important Events

4.1 Purchase, Sale or Repurchase of Listed Shares of the Company

Neither the Company nor its subsidiaries had purchased, sold or repurchased any of the Company's listed shares 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, or been publicly censured by any stock exchange. The Company has not been penalised by other regulatory bodies which have significant impact on the business 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 outstanding debt of significant amount during the reporting period.

4.4 Significant Connected Transactions¹⁰

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.

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

¹⁰ "Connected Transaction(s)" and "Connected Parties" in this section are the terms of the Hong Kong Listing Rules.

CMFM Group

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. 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.

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 2019 was RMB5.8 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.

At the end of the reporting period, the continuing connected transactions between the Company and CMFM Group amounted to RMB602 million (unaudited).

CM Securities Group

At the end of the reporting period, China Merchants Group Ltd. indirectly held 29.97% of the equity interest in the Company (by way of equity interest held, right of control or relationship of parties acting in concert). As China Merchants Group Ltd. also held 44.09% of the equity interest in CM Securities, CM Securities Group is a connected person of the Company pursuant to the Hong Kong Listing Rules. The services relating to the provision of third parties custodian account, sales of funds, account custodian and agency sales for wealth management products and collective investment products and other services provided by the Company to CM Securities Group constituted continuing connected transactions of the Company under 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 2019 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.

As at the end of the reporting period, the continuing connected transactions between the Company and CM Securities Group amounted to RMB86 million (unaudited).

Anbang Insurance Group

As at the end of the reporting period, Anbang Insurance Group Co., Ltd. indirectly held more than 10% of the equity interest in the Company and is one of the Company's substantial shareholders. According to the Hong Kong Listing Rules, Anbang Insurance Group is a connected person of the Company. The insurance products agency sales services provided by the Company to Anbang Insurance Group constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

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 2019 was RMB1.5 billion, for 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.

As at the end of the reporting period, the continuing connected transactions between the Company and Anbang Insurance Group amounted to RMB1.137 billion (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, there were a total of 230 pending cases (including litigations and arbitrations) in which the Company was involved, with an aggregate of principal and interest of RMB1.032 billion. 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

The Company received the approval from the CBIRC on the establishment of CMB Asset Management by the Company in April 2019. At present, the Company is carrying out the preparatory work for the establishment of CMB Asset Management in full swing. For details, 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.

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 2019

Upon the approval at the 2018 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 subsidiaries for 2019 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 subsidiaries for 2019. The term of the engagements is one year. For further details, please refer to the documents for 2018 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 during the reporting period, please refer to Note 2(a)(1) of the financial statements.

4.11 Social Responsibility

In 2019, adhering to its social responsibility philosophy of “striving for sustainable finance, enhancing sustainable value and contributing to sustainable development”, the Company continued to improve its social responsibility management mechanism while actively communicating with its stakeholders, fulfilling its corporate social responsibility and making contributions to the sustainable development of the economy and society. During the reporting period, the Company actively advocated the “Promotion Activities of Financial Knowledge” and strengthened the education on financial safety for the financial consumers. It also constantly advocated the idea of “Monthly Donation” and “Happy Donation”, promoted public charity for everybody, and explored for the path of sustainable public charity activities.

Environment information

During the reporting period, the Company adapted to the national policy orientation and followed the trend of domestic economic transformation while promoting green finance from the strategic perspective of the Bank, continuously improving the green credit policy, guiding credit resources towards environmental protection causes, and creating green value. For details of the granting of green loans of the Company, please refer to Section 3.10.2. Meanwhile, the Company vigorously promoted the “paperless” operation process, made painstaking efforts to save energy and reduce emission, and constantly tried its best to reduce consumption of the resources and energy generated by the environment; the Company encouraged its employees to use office supplies in an environment-friendly manner and foster a low-carbon office culture; it continuously sponsored environment protection activities to arouse awareness of the public of environment protection.

Targeted poverty alleviation

The Company resolutely implemented the decisions and arrangements of the Central Committee of CPC and the State Council on poverty alleviation, and took accurate and targeted poverty alleviation as its key political tasks, for which it has put together a leading group headed by President Tian Huiyu for coordinating the cross-division poverty alleviation efforts under the leadership of the Party Committee of the Company. A poverty alleviation office has also been established to carry out the accurate and targeted poverty alleviation efforts and fight the battle of accurate poverty alleviation in the financial sector by centering around the basic poverty alleviation standards known as “two no-worries and three guarantees (no worry about food and no worry about clothes, and guarantee of compulsory education, guarantee of basic medical care and guarantee of safe housing)” and adhering to the guideline of “really help the poor and help the real poor”. During the reporting period, the Company granted accurate poverty alleviation loans amounting to RMB8.692 billion on a national scale, including RMB5.416 billion of individual loans and RMB3.276 billion of corporate loans. Also, since the Company started to dedicatedly help and support the two counties in Yunnan Province, namely Wuding and Yongren, in 1999, it has been constantly increasing its efforts and investment of resources in these two counties. During the reporting period, the Company invested supporting funds of RMB17.13 million in the two counties, trained 437 grassroots officials and 495 technicians for them, and purchased agricultural products worth RMB3.83 million from them.

Protecting the interests of consumers

During the reporting period, the Company carefully implemented the regulatory requirements while constantly optimising the design of its upper structure and improving its operational mechanism. It streamlined the operation process, explored for management innovation, vigorously carried out promotion of financial knowledge, and advanced the standardisation, specialisation and normalisation of its efforts in protection of the rights and interests of consumers. The Company incorporated the requirements on protection of the rights and interests of consumers into the scope of its corporate governance, corporate culture and business development strategies, and continuously optimised the system and mechanism and reinforced the defects thereof. Firstly, it formulated and promulgated the Administrative Measures for the Protection of Rights and Interests of Consumers of China Merchants Bank, which covered the review of protection of the rights and interests of consumers, promotion of financial knowledge, supervision and inspection, post-event evaluation, complaint management, audit, assessment and evaluation of protection of the rights and interests of consumers; secondly, it issued the Guidelines on Review of Protection of the Rights and Interests of Consumers of China Merchants Bank and the Administration Measures for Information Disclosure Regarding Protection of the Rights and Interests of Consumers of China Merchants Bank to regulate the relevant work from the systematic perspective; thirdly, it optimised the evaluation and assessment of protection of the rights and interests of consumers, formulated special assessment targets, and incorporated protection of the rights and interests of consumers into the performance appraisal system of the Bank; fourthly, it strengthened the

application of Fintech, developed a new version of the Voice of Customer system, and advanced the pilot project of complaint classification in an orderly manner; fifthly, it enhanced the effectiveness of review of protection of the rights and interests of consumers, and conducted review and evaluation thereof in terms of products and services, which covered the design and development of products and services, rules and regulations, business policies, operation and management, pricing and contracts thereof; sixthly, it enhanced the brand influence in the financial knowledge promotion activities and gradually transformed the traditional “one-way education” into an educational model which “provides consumers with a sense of acquisition and participation”, aiming to shape an “Internet +” financial knowledge promotion and education brand with attitude, essence and positive energy, increase the consumers’ financial knowledge reserve and sense of responsibility, and create a harmonious financial consumption environment.

4.12 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 2019.

4.13 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 of the CSRC, which is available on the websites of Shanghai Stock Exchange and the Company.

Changes in Shares and Information on Shareholders

5.1 Changes in Ordinary Shares of the Company During the Reporting Period

	31 December 2018		Changes in the No. of shares during the reporting period	30 June 2019	
	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 262,384 shareholders, including 229,181 holders of A Shares and 33,203 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 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.	Overseas legal person	4,552,782,556	18.05	H Shares not subject to trading moratorium	6,302,887	–	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	China Ocean Shipping Company Limited	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	–	–	–
4	Hexie Health Insurance Co., Ltd. – Traditional – Ordinary insurance products	Domestic legal person	1,258,949,171	4.99	A Shares not subject to trading moratorium	–	–	–
5	Anbang Life Insurance Co., Ltd. – Conservative Investment Portfolio	Domestic legal person	1,258,949,100	4.99	A Shares not subject to trading moratorium	–	–	–
6	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	–	–	–
7	China Merchants Finance Investment Holdings Co., Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading moratorium	–	–	–
8	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	–	–	–
9	Hong Kong Securities Clearing Company Limited	Overseas legal person	837,371,785	3.32	A Shares not subject to trading moratorium	151,755,684	–	–
10	China Securities Finance Corporation Limited	Domestic legal person	754,798,622	2.99	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.. Hong Kong Securities Clearing Company Limited is an institution that is designated by others to hold shares, including the Shanghai Stock Connect shares of the Company held by investors, on behalf of others in its capacity as nominee shareholder.
- (2) As at the end of reporting period, of the aforesaid top 10 shareholders, HKSCC Nominees Ltd. is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited. 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.. Hexie Health Insurance Co., Ltd. and Anbang Life Insurance Co., Ltd. are controlled by Anbang Insurance Group Co., Ltd.. The Company is not aware of any affiliated relationships among other shareholders.
- (3) The above A shareholders do not hold the shares of the Company through credit securities accounts.

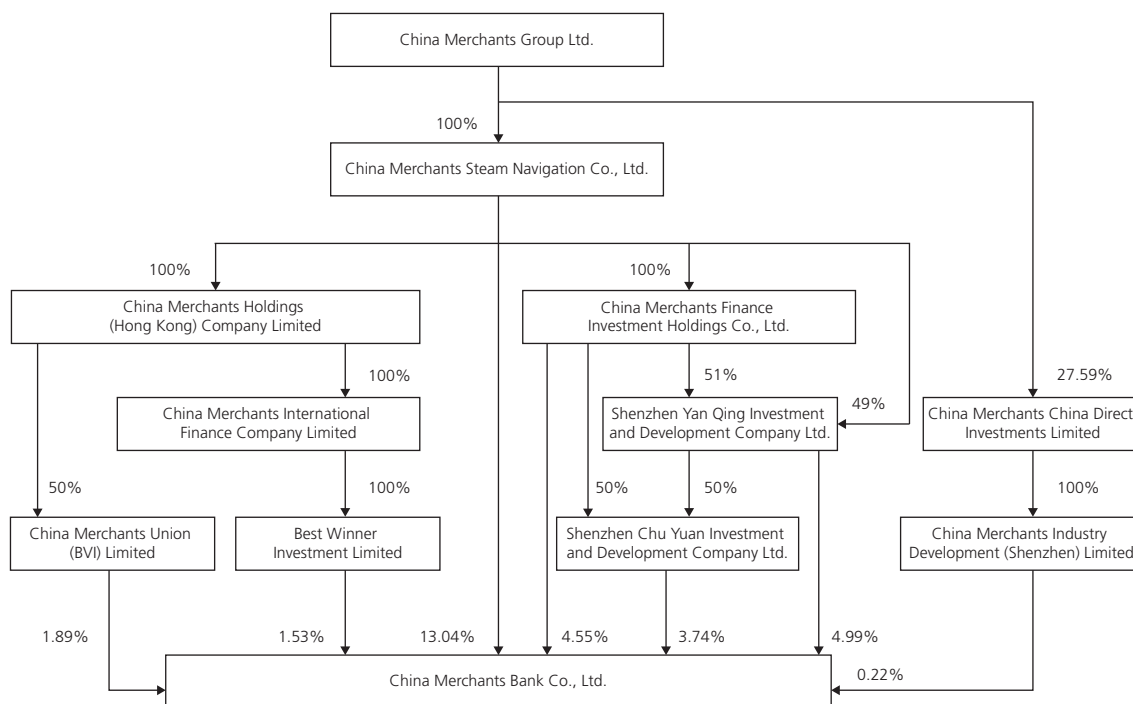
5.3 Information on Substantial Shareholders

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

China Merchants Steam Navigation Co., Ltd. is the largest shareholder of the Company. The company has a registered capital of RMB7.0 billion, and its legal representative is Li Jianhong. It mainly engages in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo, etc.; as well as investment and management of transportation-related financial businesses including banking, securities and insurance.

China Merchants Group Ltd. is the controlling shareholder of the Company's largest shareholder, as at the end of reporting period, it held 100% equity interests of China Merchants Steam Navigation Co., Ltd. with a registered capital of RMB16.7 billion. Its legal representative is Li Jianhong. China Merchants Group Ltd. is a state-owned enterprise under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was founded in 1872, when China was in its late Qing Dynasty and was undergoing the Westernisation Movement. It was one of the enterprises which played a significant role in promoting the modernisation of China's national industries and commerce at that time. Nowadays, it has developed into a diversified conglomerate, with its businesses focusing on three core industries, namely integrated transportation, featured finance and comprehensive development of cities and industrial zones. It is realising the transformation from three main businesses to three major platforms of industrial operation, financial services, investment and capital operation.

The Company did 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 controlling shareholder of its 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. There was no pledge of the shares of 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 Insurance Group Co., Ltd.. As at the end of the reporting period, Anbang Insurance Group Co., Ltd. in aggregate held 11.63% shares in the Company through Anbang Property & Casualty Insurance Company Ltd., Hexie Health Insurance Co., Ltd. and Anbang Life Insurance Co., Ltd., all being its subsidiaries, and it did not pledge any of its shares in the Company. The controlling shareholder of Anbang Insurance Group Co., Ltd. is China Insurance Security Fund Co., Ltd.. The de facto controller of China Insurance Security Fund Co., Ltd. is the Ministry of Finance. Anbang Insurance Group Co., Ltd. was established on 15 October 2004 with a registered capital of RMB41,539,497,401, and its legal representative is He Xiaofeng. The scope of its businesses includes: investments in establishment of insurance enterprises; supervision and management of various domestic and international businesses of the enterprises under control with its investment; the investment businesses permitted under the PRC laws and regulations; the insurance businesses permitted under the PRC laws and regulations; and other businesses approved by the CBIRC.
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. The scope of its businesses includes: international shipping; ancillary business in international maritime transportation; acceptance of space booking, voyage charter and time charter from cargo owners at home and abroad; leasing, construction, trading and maintenance of vessels and containers and manufacture of related facilities; ship escrowing business; provision of ship materials, spare parts and communications services relating to shipping business at home and abroad; management of enterprises engaging in vessel and cargo agency business and seafarer assignment business.

China COSCO Shipping Corporation Limited is the controlling shareholder of China Ocean Shipping Company Limited. As at the end of the reporting period, China COSCO Shipping Corporation Limited held 100% equity interests in China Ocean Shipping Company Limited. Its de facto controller 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 through China Ocean Shipping Company 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), COSCO Shipping Financial Holdings Co., Ltd. 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 1.76% of the shares of the Company and is a shareholder which has appointed Supervisors in the Company. China Communications Construction Company Limited has a registered capital of RMB16.174 billion, and its legal representative is Liu Qitao.

China Communications Construction Group (Limited) is the controlling shareholder of China Communications Construction Company Limited, as at the end of reporting period, it held 59.91% of the equity interests of China Communications Construction Company Limited, and its de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council. China Communications Construction Group (Limited) has a registered capital of RMB5.855 billion, and its legal representative is Liu Qitao. As at the end of the reporting period, through its subsidiaries, namely China Communications Construction Company Limited, CCCC Guangzhou Dredging Co., Ltd., CCCC Fourth Harbor Engineering Co., Ltd., CCCC Shanghai Dredging Co., Ltd., Zhen Hua (Shenzhen) Engineering Co., Ltd. and CCCC Third Harbor Consultants Co., Ltd. held in aggregate 2.24% of the shares of the Company. 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 1.23% of the shares of the Company and is a shareholder which has appointed Supervisors in the Company. There was no pledge of the shares of the Company. SAIC Motor Corporation Limited has a registered capital of RMB11.683 billion, and its legal representative is Chen Hong.

Shanghai Automotive Industry Corporation (Group) is the controlling shareholder of SAIC Motor Corporation Limited, as at the end of the reporting period, it held 71.24% of the equity interest 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) has 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 1.21% of the shares of the Company and is a shareholder which has appointed Supervisors in the Company. There was no pledge of the shares of the Company. Hebei Port Group Co., Ltd. has a registered capital of RMB8 billion. The legal representative is Cao Ziyu and the de facto controller is the State-owned Assets Supervision and Administration Commission of Hebei Province.

5.4 Issuance and Listing of Securities

During the reporting period, the Company did not issue any 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 32 to the financial statements.

The Company did not issue any internal staff shares.

5.5 Substantial Shareholders' and Other Persons' Interests and Short Positions in the Company under Hong Kong Laws and Regulations

As at 30 June 2019, 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			
		Long	Others	55,196,540			
				6,752,746,952	1	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			
		Long	Others	55,196,540			
				6,752,746,952	1	32.73	26.78
China Merchants Finance Investment Holdings Co., Ltd.	A	Long	Beneficial owner	1,147,377,415			
		Long	Interest of controlled corporation	2,202,555,520			
		Long	Others	55,196,540			
				3,405,129,475	1	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
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	1,258,542,349			
		Long	Interest of controlled corporation	944,013,171			
				2,202,555,520	1	10.68	8.73
Anbang Insurance Group Co., Ltd.	A	Long	Interest of controlled Corporation	2,704,596,216	2	13.11	10.72
	H	Long	Interest of controlled corporation	229,498,500	2	4.99	0.91
Anbang Life Insurance Co., Ltd.	A	Long	Interest of controlled Corporation	1,445,647,116			
		Long	Beneficial owner	1,258,949,100			
				2,704,596,216	2	13.11	10.72
	H	Long	Interest of controlled Corporation	229,498,500	2	4.99	0.91

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 (%)
Anbang Property & Casualty Insurance Company Ltd.	A	Long	Beneficial owner	186,697,945			
		Long	Interest of controlled Corporation	1,258,949,171			
				1,445,647,116	2	7.01	5.73
	H	Long	Beneficial owner	229,498,500	2	4.99	0.91
Hexie Health Insurance Co., Ltd.	A	Long	Beneficial owner	1,258,949,171	2	6.10	4.99
China Ocean Shipping Company Limited	A	Long	Beneficial owner	1,574,729,111		7.63	6.24
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
BlackRock, Inc.	H	Long	Interest of controlled Corporation	236,032,212	5	5.14	0.94
		Short	Interest of controlled Corporation	1,792,500	5	0.04	0.01
Citigroup Inc.	H	Long	Interest of controlled Corporation	28,698,106			
		Long	Approved lending agent	284,324,508			
				313,022,614	6	6.81	1.24
		Short	Interest of controlled corporation	2,863,114	6	0.06	0.01

Notes:

- (1) For details of China Merchants Group Ltd. and its subsidiaries' interests in the Company, please refer to section 5.3 "Information on the Company's largest shareholder".
- (2) Anbang Insurance Group Co., Ltd. was deemed to hold interests in a total of 2,704,596,216 A shares (long position) and 229,498,500 H shares (long position) in the Company by virtue of its control over Anbang Life Insurance Co., Ltd., Anbang Property & Casualty Insurance Company Ltd. and Hexie Health Insurance Co., Ltd..
- (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, which were all indirectly wholly-owned by JPMorgan Chase & Co., except for the following:
 - (3.1) China International Fund Management Co Ltd, which held 4,782,500 H shares (long position) of the Company, was indirectly owned as to 49% by JPMorgan Chase & Co.,.

The equity 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 the 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 the 477,903,500 H shares in the Company held by China Merchants Union (BVI) Limited by virtue of holding the 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 the 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 batch of shares.
- (5) BlackRock, Inc. was deemed to hold a total of 236,032,212 H shares (long position) and 1,792,500 H shares (short position) in the Company (of which 2,047,000 H shares (long position) and 801,000 H shares (short position) were held through cash settled unlisted derivatives) by virtue of its control over a number of companies, which were all indirectly wholly-owned by BlackRock, Inc. except for the following:
 - (5.1) BlackRock Holdco 6, LLC, which was deemed to hold 164,911,864 H shares (long position) and 1,748,500 H shares (short position) of the Company, was indirectly owned as to 90% by BlackRock, Inc..
 - (5.2) BR Jersey International Holdings L.P., which was deemed to hold 66,274,926 H shares (long position) and 44,000 H shares (short position) of the Company, was indirectly owned as to 86% by BlackRock, Inc..
 - (5.3) BlackRock Canada Holdings LP, which was deemed to hold 576,000 H shares (long position) of the Company, was indirectly owned as to 99.9% by BlackRock, Inc..
 - (5.4) BlackRock Group Limited, which was deemed to hold 59,562,343 H shares (long position) and 44,000 H shares (short position) of the Company, was indirectly owned as to 90% by BlackRock, Inc..

- (6) Citigroup Inc. was deemed to hold a total of 313,022,614 H shares (long position) and 2,863,114 H shares (short position) in the Company by virtue of its control over a number of companies, which were all indirectly wholly-owned by Citigroup Inc. except for the following:

- (6.1) Citigroup Global Markets Holdings Bahamas Limited, which was deemed to hold 11,410,682 H shares (long position) and 962,000 H shares (short position) of the Company, was indirectly owned as to 90% by Citigroup Inc.

The equity interests and short positions of Citigroup Inc. in the Company included a lending pool of 284,324,508 H shares. Besides, 9,281,127 H shares (long position) and 2,407,614 H shares (short position) were held through derivatives as follows:

1,878,460 H shares (long position) and 1,800,000 H shares (short position)	– through physically settled listed derivatives
384,878 H shares (long position) and 101,114 H shares (short position)	– through physically settled unlisted derivatives
7,017,789 H shares (long position) and 506,500 H shares (short position)	– through cash settled unlisted derivatives

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 of the Company as at 30 June 2019 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

5.6 Preference Shares

5.6.1 Issuance and listing of preference shares

Pursuant to the approvals by the regulatory authorities, the Company made a non-public issuance of 50,000,000 non-cumulative perpetual offshore preference shares on 25 October 2017. The issuance price is USD20 each and the coupon dividend rate per annum is 4.40% (excluding tax, i.e., the actual dividend yield to be received by the holders of the preference shares is 4.40%). The offshore preference shares of the issuance were listed on Hong Kong Stock Exchange on 26 October 2017 (abbreviated name of shares: "CMB 17USDPREF"; stock code: 04614; number of listed shares: 50,000,000). The total proceeds from the issuance of the offshore preference shares amounted to USD1.0 billion and, after deduction of the expenses relating to the issuance, have fully been used to replenish the Company's additional Tier 1 Capital.

Pursuant to the approvals by the regulatory authorities, the Company made a non-public issuance of 275,000,000 domestic preference shares on 22 December 2017. The issuance price is RMB100 each and the coupon dividend rate per annum is 4.81% (including tax). 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 (abbreviated name of shares: "Zhao Yin You 1 (招銀優1)"; stock code: 360028; number of listed shares: 275,000,000). The total proceeds from the issuance of the domestic preference shares amounted to RMB27.5 billion. After deduction of the expenses relating to the issuance, the proceeds have fully been used to replenish the Company's additional Tier 1 Capital.

For details, 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 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 Group Co., Ltd.	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	-	-

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)
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

During the reporting period, 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 "IFRS 9 – Financial Instruments" and the "IAS 32 – Financial Instruments: Presentation". As the preference shares issued and outstanding of the Company carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as other equity instruments.

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

6.1 Directors, Supervisors and Senior Management

Name	Gender	Date of Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)
Li Jianhong	Male	1956.5	Chairman	2014.8-2022.6	-	-
Fu Gangfeng	Male	1966.12	Non-Executive Director	2014.7-2022.6	-	-
			Vice Chairman	2018.7-2022.6	-	-
			Non-Executive Director	2010.8-2022.6	-	-
Tian Huiyu	Male	1965.12	Executive Director	2013.8-2022.6	110,000	110,000
			President and Chief Executive Officer	2013.9-2022.6	-	-
			Non-Executive Director	2018.10-2022.6	-	-
Zhou Song	Male	1972.4	Non-Executive Director	2007.6-2022.6	-	-
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2016.11-2022.6	-	-
Zhang Jian	Male	1964.10	Non-Executive Director	2014.9-2022.6	-	-
Su Min	Female	1968.2	Non-Executive Director	2016.11-2022.6	-	-
Wang Daxiong	Male	1960.12	Non-Executive Director	2019.7-2022.6	-	-
Luo Sheng	Male	1970.9	Non-Executive Director	2015.1-(note 1)	-	-
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1-(note 1)	-	-
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2017.2-2022.6	-	-
Wong See Hong	Male	1953.6	Independent Non-Executive Director	2018.11-2022.6	-	-
Li Menggang	Male	1967.4	Independent Non-Executive Director	2018.11-2022.6	-	-
Liu Qiao	Male	1970.5	Independent Non-Executive Director	2019.8-2022.6	-	-
Tian Hongqi	Male	1957.5	Independent Non-Executive Director	2014.8-2022.6	90,000	180,000
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2019.6-2022.6	-	-
Peng Bihong	Male	1963.10	Shareholder Supervisor	2016.6-2022.6	-	-
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2016.6-2022.6	-	-
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6-2022.6	-	-
Ding Huiping	Male	1956.6	External Supervisor	2016.6-2022.6	-	-
Han Zirong	Male	1963.7	External Supervisor	2016.6-2022.6	-	-
Xu Zhengjun	Male	1955.9	External Supervisor	2019.6-2022.6	-	-
Wang Wangqing	Male	1964.9	Employee Supervisor	2018.7-2022.6	60,000	60,000
Liu Xiaoming	Male	1963.11	Employee Supervisor	2019.6-2022.6	50,000	70,000
Tang Zhihong	Male	1960.3	Executive Vice President	2006.5-2022.6	80,000	160,900
Liu Jianjun	Male	1965.8	Executive Vice President	2013.12-2022.6	80,000	100,000
			Secretary of Board of Directors	2019.7-2022.6	-	-
			Secretary of the Party Discipline Committee	2014.7-present	80,000	99,800
Wang Liang	Male	1965.12	Executive Vice President	2015.1-2022.6	80,000	80,000
			Chief Financial Officer	2019.4-2022.6	-	-
			Executive Vice President	2019.4-2022.6	80,000	80,000
Wang Jianzhong	Male	1962.10	Executive Vice President	2019.4-2022.6	85,000	160,000
Shi Shunhua	Male	1962.12	Executive Vice President	2019.6-2022.6	-	20,000
Wang Yungui	Male	1963.6	Executive Vice President	2019.4-present	60,000	80,000
Li Delin	Male	1974.12	Executive Assistant President	2019.4-present	55,000	124,100
Liu Hui	Female	1970.5	Executive Assistant President	2001.4-2019.6	-	-
Sun Yueying	Female	1958.6	Former Non-Executive Director	2007.6-2019.4	100,000	200,000
Li Hao	Male	1959.3	Former Executive Director, First Executive Vice President and Chief Financial Officer	2012.7-2019.8	-	-
Pan Chengwei	Male	1946.2	Former Independent Non-Executive Director	2015.9-2019.2	-	-
Fu Junyuan	Male	1961.5	Former Shareholder Supervisor	2014.10-2019.6	65,800	65,800
Jin Qingjun	Male	1957.8	Former External Supervisor	2015.3-2019.6	45,000	45,000
Huang Dan	Female	1966.6	Former Employee Supervisor	2008.12-2019.2	-	-
Zhu Qi	Male	1960.7	Former Executive Vice President	2015.2-2019.2	-	-
Zhao Ju	Male	1964.11	Former Executive Vice President			

- Notes: (1) 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》), the term of office of independent directors shall not exceed six years. Therefore, the terms of office of Mr. Leung Kam Chung, Antony and Mr. Zhao Jun, both being Independent Directors, will expire earlier than conclusion of the Eleventh Session of the Board of Directors.
- (2) The changes in the shareholdings during the reporting period were due to an increase in their respective shareholdings.
- (3) None of the persons listed in the above table has been punished by the securities regulatory authorities over the past three years.
- (4) None of the persons 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

Directors

In April 2019, Mr. Li Hao resigned as the Executive Director of the Company due to age reason.

According to the relevant resolutions of the 2018 Annual General Meeting of the Company, Mr. Luo Sheng was elected as Non-Executive Director of the Company, and his qualification for serving as a director was approved by the CBIRC in July 2019; Mr. Sun Yunfei was newly elected as Non-Executive Director of the Company; and Mr. Liu Jianjun and Mr. Wang Liang were newly elected as Executive Directors of the Company. The qualifications of Mr. Sun Yunfei, Mr. Liu Jianjun and Mr. Wang Liang are subject to the approval of the CBIRC; Mr. Tian Hongqi was newly elected as Independent Non-Executive Director of the Company, and his qualification for serving as a director was approved by the CBIRC in August 2019. At the same time, Mr. Pan Chengwei ceased to be the Independent Non-Executive Director of the Company.

In June 2019, Ms. Sun Yueying ceased to be the Non-Executive Director of the Company upon conclusion of the 2018 Annual General Meeting due to expiration of her term of office.

In June 2019, Mr. Sun Yunfei was newly elected as the Vice Chairmen at the first meeting of the Eleventh Session of the Board of Directors of the Company, and his qualification for serving as a Vice Chairman is subject to the approval of the CBIRC.

Supervisors

In February 2019, Mr. Fu Junyuan resigned as a Shareholder Supervisor of the Company due to work arrangement.

According to the relevant resolutions of the 2018 Annual General Meeting of the Company, Mr. Peng Bihong was newly elected as Shareholder Supervisor of the Company, and Mr. Xu Zhengjun was newly elected as External Supervisor of the Company. Their terms of office shall commence from 27 June 2019.

In June 2019, Mr Jin Qingjun ceased to be the External Supervisor of the Company upon conclusion of the 2018 Annual General Meeting due to expiration of his term of office.

According to the resolutions passed at Worker’s Congress of the Company, Mr. Liu Xiaoming was newly elected as an Employee Supervisor of the Company, and his term of office shall commence from 27 June 2019.

In June 2019, Ms. Huang Dan ceased to be the Employee Supervisor of the Company upon conclusion of the 2018 Annual General Meeting due to expiration of her term of office.

Senior management

In February 2019, according to the relevant resolutions of the 37th meeting of the Tenth Session of the Board of Directors of the Company, Mr. Zhu Qi and Mr. Zhao Ju resigned as the Executive Vice Presidents of the Company due to other business commitment, and the Board of Directors of the Company appointed Mr. Wang Jianzhong and Mr. Shi Shunhua as the Executive Vice Presidents of the Company. In April 2019, the qualifications of Mr. Wang Jianzhong and Mr. Shi Shunhua as the Executive Vice Presidents were approved by the CBIRC.

In April 2019, the qualifications of Mr. Li Delin and Ms. Liu Hui as the Executive Assistant President were approved by the CBIRC.

In April 2019, according to the relevant resolutions of the 41st meeting of the Tenth Session of the Board of Directors of the Company, Mr. Li Hao ceased to act as the First Executive Vice President and Chief Financial Officer of the Company due to his age, and the Board of Directors of the Company appointed Mr. Wang Yungui as Executive Vice President of the Company. In June 2019, the qualification of Mr. Wang Yungui for serving as Executive Vice President was approved by the CBIRC.

In April 2019, according to the relevant resolutions of the 42nd meeting of the Tenth Session of the Board of Directors of the Company, the Board of Directors of the Company appointed Mr. Wang Liang as Chief Financial Officer of the Company. Due to changes in the assignment of responsibilities in the Bank, Mr. Wang Liang ceased to serve as the Secretary of the Board of Directors of the Company.

In June 2019, according to the relevant resolutions of the first meeting of the Eleventh Session of the Board of Directors of the Company, the Board of Directors of the Company appointed Mr. Liu Jianjun as the Secretary of the Board of Directors. Mr. Liu Jianjun obtained the qualification certificate of board secretary training and officially served as Secretary of the Board of Directors in July 2019.

For details of the above-mentioned matters, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

6.3 Changes of Information of Directors and Supervisors

1. Mr. Tian Huiyu ceased to serve as the Chairman of CMB Wing Lung Bank.
2. Mr. Zhangjian serves as Director of the Digital Center of China Merchants Group Ltd., and ceased to serve as the director of China Merchants RenHe Life Insurance Co., Ltd..
3. Ms. Su Min serves as the director of Bosera Asset Management Co., Ltd..
4. Mr. Wang Daxiong serves as the Chairman of COSCO SHIPPING Development Co., Ltd. and ceased to serve as a Vice Chairman of New China COSCO Financial Holdings Limited.
5. Mr. Liu Qiao serves as a member of Think Tank Committee of All-China Federation of Industry and Commerce (全國工商聯智庫委員會) and a member of the Economic Research Center of Chinese Kuomintang Revolutionary Committee.
6. Mr. Wen Jianguo serves as Chairman of Hebei Port Group Finance Company Limited.
7. Mr. Wu Heng serves as the non-executive director of Bank of Chongqing Co., Ltd..
8. Mr. Ding Huiping serves as the independent director of China Haisum Engineering Co., Ltd. (中國海誠工程科技股份有限公司).

6.4 Main Current 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
Zhou Song	China Merchants Group Ltd.	Chief Accountant	From October 2018 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Assistant General Manager	From September 2011 up to now
		Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From June 2018 up to now
Zhang Jian	China Merchants Group Ltd.	Chief Digital Officer	From January 2019 up to now
		Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From June 2018 up to now
Su Min	China Merchants Group Ltd.	Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From June 2018 up to now
Wang Daxiong	COSCO SHIPPING Development Co., Ltd.	Chairman	From July 2019 up to now
Luo Sheng	China Banking and Insurance Regulatory Commission	Deputy Head of the working group to take over Anbang Insurance Group	From February 2018 up to now
Peng Bihong	China Communications Construction Co., Ltd.	Chief Financial Officer	From September 2018 up to now
Wen Jianguo	Hebei Port Group Co., Ltd.	Director and 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 30 June 2019, 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	Executive Director, President and Chief Executive Officer	A Share	Long position	Beneficial Owner	110,000	0.00053	0.00044
Zhou Song	Non-Executive Director	A Share	Long position	Interest of spouse	23,282	0.00011	0.00009
Liu Yuan	Chairman of Board of Supervisors, Employee Supervisor	A Share	Long position	Beneficial Owner	180,000	0.00087	0.00071
Wang Wanqing	Employee Supervisor	A Share	Long position	Beneficial Owner	60,000	0.00029	0.00024
Liu Xiaoming	Employee Supervisor	A Share	Long position	Beneficial Owner	70,000	0.00034	0.00028

6.6 Information about Employees

As of 30 June 2019, the Group had 86,318 employees¹¹ (including dispatched employees). The classification of our employees by profession is: 38,218 employees in retail finance, 17,235 employees in corporate finance, 14,799 employees in operation management, 7,987 employees in general management, 4,268 employees in risk management, 2,963 employees in research and development, and 848 employees in administrative and logistical support. The classification of our employees by educational background is: 16,603 employees with master's degree and above, 56,181 employees with bachelor's degree, 9,999 employees with junior college degree, and 3,535 employees with technical secondary school degrees or below.

6.7 Branches and Representative Offices

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	5,012	2,719,375
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,088	624,225
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	94	4,737	237,244
	Shanghai Pilot Free Trade Zone Branch	6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	32	20,550
	Nanjing Branch	199 Lushan Road, Jianye District, Nanjing	210005	80	2,865	174,303
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	75	2,660	171,468
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	32	1,182	70,638
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	29	1,300	111,196
	Wuxi Branch	6-107, 6-108 1st Financial Street, Binhu District, Wuxi	214001	18	745	39,048
	Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wujiao Avenue, Lucheng District, Wenzhou	325000	13	539	34,256
	Nantong Branch	111 Gongnong Road, Nantong	226007	13	551	25,628
Bohai Rim	Beijing Representative Office	26/F, Building 3, No.1 Yuetan South Street, Xicheng District, Beijing	100045	1	9	1
	Beijing Branch	156 Fuxingmen Nei Dajie, Xicheng District, Beijing	100031	100	4,807	328,778
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	49	1,559	50,096
	Tianjin Branch	255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300201	44	1,744	81,727
	Jinan Branch	7 Gongqingtuan Road, Jinan	250012	60	1,798	71,653
	Yantai Branch	66 Zhujiang Road, Economic & Technological Development Area, Yantai	264006	19	542	13,684
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	13	425	18,867
	Tangshan Branch	45 Beixin Road West, Lubei District, Tangshan	063000	9	229	4,216

¹¹ Including employees of the Company, CMB Wing Lung Bank, CMB Financial Leasing, CMB International Capital, China Merchants Fund, CIGNA & CMB Life Insurance and Merchants Union Consumer. There were 86,417 employees at the end of 2018 calculated on the same statistical calibre.

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	2,708	149,698
	Shenzhen Branch	2016 Shennan Boulevard, Futian District, Shenzhen	518001	113	5,305	387,489
	Fuzhou Branch	316 Jiangbinzhong Boulevard Road, Fuzhou	350014	32	1,145	59,398
	Xiamen Branch	18 Lingshiguan Road, Siming District, Xiamen	361012	32	975	52,543
	Quanzhou Branch	Huangxing Building, No. 301, Fengze Street, Quanzhou	362000	18	484	18,978
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523000	28	863	39,605
	Foshan Branch	12 Denghu Road East, Guicheng Street, Nanhai District, Foshan	528200	31	980	50,011
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	60	1,647	45,560
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	38	1,225	33,293
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150010	38	1,074	44,325
	Changchun Branch	9999 Renmin Avenue, Nangan District, Changchun	130022	27	685	26,105
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	108	2,627	149,657
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330008	57	1,465	79,444
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	43	1,457	46,543
	Hefei Branch	169 Funan Road, Hefei	230001	43	1,321	54,189
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	42	1,287	68,680
	Taiyuan Branch	265 Nan Zhong Huan Road, Xiaodian District, Taiyuan	030012	28	864	28,375
	Haikou Branch	Complex Building C, Haian Yihao, 1 Shimao Road North, Haikou	570125	10	321	10,366
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	53	1,616	60,912
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	29	869	28,581
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710075	65	1,847	69,341
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	47	1,695	81,435
	Urumchi Branch	2 Huanghe Road, Urumchi	830006	16	743	26,078
	Kunming Branch	1 Chongren Street Wuhua District, Kunming	650021	48	1,326	54,796
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010098	21	618	22,253
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	21	514	23,407
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	17	443	20,573
	Yinchuan Branch	138 Beijingzhong Road, Jinfeng District, Yinchuan	750001	16	405	14,033
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	10	258	8,647

Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
Outside Mainland China	Hong Kong Branch	31/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong	/	1	248	128,567
	USA Representative Office	23rd Floor, 535 Madison Avenue, New York, U.S.A	10022	1	1	4
	New York Branch	23rd Floor, 535 Madison Avenue, New York, U.S.A	10022	1	131	55,539
	Singapore Branch	1 Raffles Place, Tower 2, #32-61, Singapore	048616	1	55	6,430
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	/	1	3	1
	Luxembourg Branch	20 Boulevard Royal, L-2449, Luxembourg	L-2449	1	40	10,865
	London Branch	18/F, 20 Fenchurch Street, London, UK	/	1	48	9,241
	Sydney Branch	L39, GPT, 1 Farrer Place, Sydney, NSW	/	1	28	4,267
Other assignments	/	/	/	/	7	/
	CMB Wing Lung Bank	45 Des Voeux Road Central, Hong Kong	/	/	1,969	HK\$325,351
	CMB Financial Leasing	22/F, 1088 Lujiazui Ring Road, Shanghai	200120	/	283	188,240
	CMB International Capital	45-46/F, Champion Tower, 3 Garden Road, Central, Hong Kong	/	/	433	HK\$28,774
	China Merchants Fund	China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen	518040	/	610	6,864
	CIGNA & CMB Life Insurance	No. 3102, China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen	518040	/	8,034	53,115
	Merchants Union Consumer	18/F, Building A4, Kexing Science Park, Nanshan District, Shenzhen	518000	/	837	76,635
Total	/	/	/	1,829	86,318 ¹²	/

¹² Including employees of the Company, CMB Wing Lung Bank, CMB Financial Leasing, CMB International Capital, China Merchants Fund, CIGNA & CMB Life Insurance and Merchants Union Consumer. There were 86,417 employees at the end of 2018 calculated on the same statistical calibre.

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, fully 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, 12 meetings of the Board of Directors, including 6 on-site meeting and 6 meetings voted by correspondence, at which 69 proposals were considered and approved and 12 special reports were delivered; held 22 meetings of the special committees under the Board of Directors, including 3 meetings of Strategic Committee, 5 meetings of Audit Committee, 3 meetings of Related Party Transactions Management and Consumer Rights Protection Committee, 4 meetings of Risk and Capital Management Committee, 2 meetings of Remuneration and Appraisal Committee, and 5 meetings of Nomination Committee, at which 74 issues were studied and considered and 12 special reports were delivered; held 7 meetings of Supervisory Committee, at which 26 proposals were considered and approved and 13 special reports were delivered; held 5 meetings of the special committees under the Board of Supervisors, including 3 meeting of the Nomination Committee and 2 meeting of the Supervisory Committee, at which 9 issues were studied and considered.

Having conducted thorough self-inspection, the Company was not aware of any non-compliance of its corporate governance practice during the reporting period with the requirements set out in the 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 2018 Annual General Meeting held in Shenzhen on 27 June 2019. The notice, convening, holding and voting procedures of such meeting were in compliance with the relevant requirements of the Company Law of the People's Republic of China, 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 the disclosure documents including the 2018 Annual General Meeting documents, the General Meeting Circulars 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 2019.

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 organised campaigns “to reinforce its results on rectification of disorders and to promote compliance construction”. It adopted “looking back” approach on rectification of issues which were found in the process of further rectifying the market disorders in 2018 and the implementation of the comprehensive remediation measures, so as to consolidate our results on rectification. The Company fully carried out self-examination and self-correction by focusing on the major issues of rectification work proposed by the CBIRC in 2019, 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 rectification of disorders, the Company continued to organise and conduct the compliance education, case warning trainings and code of conduct education, continuously strengthened the employees’ awareness of risks, compliance and policies and overall consciousness, vigorously promoted the professional ethics in integrity and compliance with disciplines, and actively built a compliance culture that “cannot violate regulations, dare not violate regulations, and is unwilling to violate regulations”; continued to conduct investigations on employees’ abnormal behaviors and case risk, identify and eliminate all kinds of potential risks in a timely manner; proactively maintained a record of employee’s minor 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; further strengthened the supervision and inspection of various business activities and non-compliance accountability and continued to maintain high pressure on all kinds of violations with a view to ensuring the implementation of each regulatory requirement and national regulatory policies and ensuring the compliance operation and healthy development of the Company’s various businesses.

During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2018 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.

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 2018 Annual General Meeting documents 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 of the CBIRC.

7.6 Compliance with the Corporate Governance Code

During the reporting period, the Company has applied the principles set out in the Corporate Governance Code in Appendix 14 to 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).

Report on Review of Interim Financial Report



德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

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 102 to 227, which comprise the consolidated statement of financial position as of 30 June 2019 and the related consolidated statement of profit or loss, 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

23 August 2019

Unaudited Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

Six months ended 30 June			
	Notes	2019	2018
Interest income	3	144,517	131,175
Interest expense	4	(57,110)	(54,163)
Net interest income		87,407	77,012
Fee and commission income	5	42,512	40,398
Fee and commission expense		(3,541)	(2,929)
Net fee and commission income		38,971	37,469
Other net income	6	11,252	10,780
– Disposal of financial instruments at amortised cost		(12)	1
Operating income		137,630	125,261
Operating expenses	7	(40,401)	(35,729)
Operating profit before impairment losses		97,229	89,532
Expected credit losses	8	(33,064)	(31,429)
Share of profits of joint ventures		721	619
Share of (losses)/profits of associates		(13)	223
Profit before taxation		64,873	58,945
Income tax	9	(14,015)	(14,076)
Profit for the period		50,858	44,869
Attributable to:			
Equity holders of the Bank		50,612	44,756
Non-controlling interests		246	113
Earnings per share			
Basic and diluted (RMB)	11	2.01	1.77

The notes on pages 110 to 227 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 2019

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	Six months ended 30 June	
		2019	2018
Profit for the period		50,858	44,869
Other comprehensive income for the period after tax and reclassification adjustments			
Items that may be reclassified subsequently to profit or loss			
Fair value (loss)/gain on debt instruments measured at fair value through other comprehensive income		(339)	2,549
Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income		600	482
Cash flow hedge: net movement in hedging reserve		(97)	154
Equity-accounted investees-share of other comprehensive income		171	(86)
Exchange difference on translation of financial statements of foreign operations		23	579
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		507	122
Remeasurement of defined benefit liability		7	—
Other comprehensive income for the period, net of tax	10	872	3,800
Attributable to:			
Equity holders of the Bank		863	3,849
Non-controlling interests		9	(49)
Total comprehensive income for the period		51,730	48,669
Attributable to:			
Equity holders of the Bank		51,475	48,605
Non-controlling interests		255	64

The notes on pages 110 to 227 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	30 June 2019	31 December 2018
Assets			
Cash		14,507	15,814
Precious metals		3,018	6,638
Balances with central banks	12	535,669	477,568
Balances with banks and other financial institutions	13	87,900	100,160
Placements with banks and other financial institutions	14	209,913	313,411
Amounts held under resale agreements	15	259,040	199,386
Loans and advances to customers	16	4,123,051	3,749,949
Investments at fair value through profit or loss	17(a)	344,001	330,302
Derivative financial assets	41(f)	27,533	34,220
Debt investments at amortised cost	17(b)	925,683	916,012
Debt investments at fair value through other comprehensive income	17(c)	435,039	421,070
Equity investments designated at fair value through other comprehensive income	17(d)	5,763	4,015
Interests in joint ventures	18	9,269	8,622
Interests in associates	19	416	249
Investment properties	20	1,987	2,061
Property and equipment	21	59,775	56,206
Right-of-use assets	22	19,236	N/A
Intangible assets	23	4,071	9,150
Goodwill	24	9,954	9,954
Deferred tax assets	25	64,603	58,374
Other assets		52,753	32,568
Total assets		7,193,181	6,745,729
Liabilities			
Borrowing from central bank		334,509	405,314
Deposits from banks and other financial institutions	26	552,560	470,826
Placements from banks and other financial institutions	27	175,251	203,950
Financial liabilities at fair value through profit or loss	28	43,127	44,144
Derivative financial liabilities	41(f)	30,814	36,570
Amounts sold under repurchase agreements	29	90,344	78,141
Deposits from customers	30	4,727,134	4,427,566
Salaries and welfare payable		13,035	8,475
Tax payable		19,852	20,411
Contract liabilities		6,000	5,607
Lease liabilities		13,229	N/A
Provision	31	7,405	5,665
Debt securities issued	32	501,902	424,926
Deferred tax liabilities	25	1,186	1,211
Other liabilities		102,838	69,318
Total liabilities		6,619,186	6,202,124

The notes on pages 110 to 227 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	30 June 2019	31 December 2018
Equity			
Share capital	33	25,220	25,220
Other equity instruments		34,065	34,065
Including: Preference shares	34	34,065	34,065
Capital reserve		67,523	67,523
Investment revaluation reserve	35	6,487	5,532
Hedging reserve		(34)	63
Surplus reserve		53,682	53,682
Regulatory general reserve		79,626	78,542
Retained profits		300,173	250,654
Proposed profit appropriations	36(b)	–	23,707
Exchange reserve		1,144	1,130
Total equity attributable to equity holders of the Bank		567,886	540,118
Non-controlling interests		6,109	3,487
– Non-controlling interest		2,185	2,329
– Perpetual capital instruments	43(a)	3,924	1,158
Total equity		573,995	543,605
Total equity and liabilities		7,193,181	6,745,729

Approved and authorised for issue by the Board of Directors on 23 August 2019.

Mr. Li Jianhong
Director

Mr. Tian Huiyu
Director

Company Chop

The notes on pages 110 to 227 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

For the six months ended 30 June 2019															
	Note	Total equity attributable to equity holders of the Bank										Non-controlling interests		Total	
		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		Non-controlling interest
At 1 January 2019		25,220	34,065	67,523	5,532	63	53,682	78,542	250,654	23,707	1,130	540,118	1,158	2,329	543,605
Changes in equity for the period		-	-	-	955	(97)	-	1,084	49,519	(23,707)	14	27,768	2,766	(144)	30,390
(a) Net profit for the period		-	-	-	-	-	-	-	50,612	-	-	50,612	32	214	50,858
(b) Other comprehensive income for the period	10	-	-	-	946	(97)	-	-	-	-	14	863	5	4	872
Total comprehensive income for the period		-	-	-	946	(97)	-	-	50,612	-	14	51,475	37	218	51,730
(c) Changes by the shareholder's equity		-	-	-	-	-	-	-	-	-	-	-	2,761	(227)	2,534
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	2	2
(ii) Decrease in non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	(229)	(229)
(iii) Issuance of perpetual capital instruments	43(a)	-	-	-	-	-	-	-	-	-	-	-	2,761	-	2,761
(d) Profit appropriations		-	-	-	-	-	-	1,084	(1,084)	(23,707)	-	(23,707)	(32)	(135)	(23,874)
(i) Appropriations to regulatory general reserve		-	-	-	-	-	-	1,084	(1,084)	-	-	-	-	-	-
(ii) Dividends appropriations for the year 2018		-	-	-	-	-	-	-	-	(23,707)	-	(23,707)	-	(135)	(23,842)
(iii) Distribution to perpetual capital instruments	43(a)	-	-	-	-	-	-	-	-	-	-	-	(32)	-	(32)
(e) Transfers within equity upon disposal of equity instruments designated at FVTOCI		-	-	-	9	-	-	-	(9)	-	-	-	-	-	-
At 30 June 2019		25,220	34,065	67,523	6,487	(34)	53,682	79,626	300,173	-	1,144	567,886	3,924	2,185	573,995

The notes on pages 110 to 227 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

For the six months ended 30 June 2018															
	Total equity attributable to equity holders of the Bank												Non-controlling interests		Total
	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	Non-controlling interest	
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		-	-	-	2,368	-	-	-	(9,270)	-	-	(6,902)	-	-	(6,902)
At 1 January 2018		25,220	34,065	67,523	(1,444)	(86)	46,159	70,921	210,608	21,185	(843)	473,308	1,170	2,012	476,490
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		-	-	-	-	-	-	-	-	-	-	-	-	122	122
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	139	139
(ii) Decrease in non-controlling interests		-	-	-	-	-	-	-	-	-	-	-	-	(17)	(17)
(d) Profit appropriations		-	-	-	-	-	-	(86)	86	(21,185)	-	(21,185)	(32)	-	(21,217)
(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	255,449	-	(229)	500,728	1,135	2,201	504,064

The notes on pages 110 to 227 form part of this interim financial report.

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

	Six months ended 30 June	
	2019	2018
Operating activities		
Profit before tax	64,873	58,945
Adjustments for:		
– Impairment losses on loans and advances	29,512	30,378
– Impairment losses on investments and other assets	3,552	1,051
– Unwind of discount on loans and advances	(165)	(179)
– Depreciation of property and equipment and investment properties	2,924	2,503
– Depreciation and amortisation of right-of-use assets	2,154	N/A
– Amortisation of other assets	484	683
– Net gain on debt securities and equity investments	(733)	(6,142)
– Interest income on investments	(24,246)	(24,098)
– Interest expense on issued debt securities	8,177	6,611
– Share of losses/(profits) of associates	13	(223)
– Share of profits of joint ventures	(721)	(619)
– Net gains on disposal of property and equipment and other assets	(318)	(155)
– Interest expense on lease liabilities	261	N/A
Changes in:		
Balances with central bank	(19,758)	64,454
Loans and advances to customers	(392,572)	(291,420)
Other assets	(20,661)	(7,737)
Deposits from customers	299,064	193,458
Deposits and placements from banks and other financial institutions	65,313	(26,799)
Balances and placements with banks and other financial institutions with original maturity over 3 months	22,648	(15,930)
Borrowing from central bank	(69,050)	(57,522)
Other liabilities	(3,755)	34,833
Cash used in operating activities before income tax payment	(33,004)	(37,908)
Income tax paid	(22,019)	(27,716)
Net cash used in operating activities	(55,023)	(65,624)
Investing activities		
Payment for the purchases of investments	(461,031)	(422,293)
Payment for the purchases of property and equipment and other assets	(8,342)	(7,799)
Payment for investments in the subsidiaries, associates, joint venture	(28)	(1,033)
Proceeds from the disposals of investments	453,571	559,148
Gains received from investments	25,475	29,550
Proceeds from the disposals of subsidiaries, associates, joint venture	–	9
Proceeds from the disposals of property and equipment and other assets	1,426	1,677
Net cash generated from investing activities	11,071	159,259

The notes on pages 110 to 227 form part of this interim financial report.

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	Six months ended 30 June	
		2019	2018
Financing activities			
Proceeds from the issue of debt securities		11,053	10,887
Proceeds from the issue of negotiable interbank certificates of deposit		283,123	269,272
Proceeds from the issue of certificates of deposit		12,235	13,916
Proceeds from perpetual capital instruments		2,761	–
Injection from non-controlling interests		–	139
Proceeds from other financing activities		597	–
Repayment of negotiable interbank certificates of deposit		(203,859)	(234,500)
Repayment of certificates of deposit		(13,508)	(11,791)
Repayment of debt securities issued		(15,718)	(6,277)
Repayment of lease liabilities		(2,117)	N/A
Repayment of redemption of non-controlling interests		–	(17)
Dividends paid		(32)	(32)
Interest paid on financing activities		(5,156)	(1,377)
Repayments for other financing activities		(183)	–
Net cash generated from financing activities		69,196	40,220
Net increase in cash and cash equivalents		25,244	133,855
Cash and cash equivalents as at 1 January		543,683	460,425
Effect of foreign exchange rate changes		338	1,169
Cash and cash equivalents as at 30 June	37(a)	569,265	595,449
Cash flows from operating activities include:			
Interest received		119,129	104,437
Interest paid		50,043	49,764

The notes on pages 110 to 227 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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 2019, 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 three representative offices in Beijing, New York and Taipei.

The particulars of the Bank's major subsidiaries as at 30 June 2019 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	Shi Shunhua
CMB Wing Lung Bank Limited ("CMB WLB")	Hong Kong	HKD1,161	100%	Banking	Limited company	Note (i)
China Merchants Fund Management Co., Ltd. ("CMFM")	Shenzhen	RMB1,310	55%	Fund management	Limited company	Li Hao

Note:

- (i) Mr. Tian Huiyu has ceased serving as the Chairman of the CMB WLB, the relevant qualifications of the chairman-designated are under regulatory approval.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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 2018 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 consolidated financial statements for the year ended 31 December 2018.

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

IFRS 16	Leases
Amendments to IFRS 9	Prepayment features with negative compensation
IFRIC 23	Uncertainty over income tax treatments
Amendments to IAS 19	Plan amendment, curtailment or settlement
Amendments to IAS 28	Long-term interests in associates and joint ventures
Amendments to IFRSs	Annual improvements to IFRSs 2015-2017 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. Except for the new and amendments to IFRSs mentioned below, the application of the new and amendments to IFRSs has no material impact on the Group’s interim consolidated financial statements.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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)*

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 16 Leases

The Group has applied IFRS 16 *Leases* ("IFRS 16") for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17") and the related interpretations.

(1.1) Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (lease term of 12 months or less and do not contain a purchase option) and leases of low value assets (the value of assets is below equivalent to RMB35,000).

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis over the lease term.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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)*

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 16 Leases *(continued)*

(1.1) Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee *(continued)*

Right-of-use assets

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The right-of-use asset is initially measured at cost. This cost includes:

- the amount of the initial measurement lease liability; and
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the lessee; and
- whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

After the commencement date, the right-of-use assets are measured at cost (subject to certain exceptions) less accumulated depreciation, amortisation and impairment losses, adjusted for any remeasurement of the lease liability. The Group recognises the depreciation and amortisation of right-of-use assets as an operating expense on a straight-line basis and calculate the depreciation and amortisation charge into the operating expenses of the consolidated statement of profit or loss. Right-of-use assets are depreciated and amortised over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated and amortised over the useful life of the underlying assets.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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)*

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 16 Leases *(continued)*

(1.1) Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee *(continued)*

Lease liabilities

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date using its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease; and
- The amount expected to be payable by the lessee under remaining value guarantees.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made the Group remeasures the lease liability and makes a corresponding adjustment to the related right-of-use asset whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed remaining value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate. But if the change in lease payments results from a change in floating interest rates, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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)*

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 16 Leases *(continued)*

(1.1) Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Leases for which the Group is a lessor are classified as finance or operating leases. When the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the consolidated statement of financial position as "loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Impairment losses are accounted for in accordance with the IFRS 9 *Financial Instruments* ("IFRS 9").

When the Group is a lessor of an operating lease, income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term. Initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Contingent lease income is charged to profit or loss in the accounting period in which they are incurred.

When a contract includes lease and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") to allocate the consideration under the contract to each component.

Sale and leaseback transactions

The Group acts as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of IFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred asset and recognises loan and advance to customers equal to the transfer proceeds within the scope IFRS 9.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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)*

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 16 Leases *(continued)*

(1.2) Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application 1 January 2019.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application.
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- excluded initial direct costs from the measuring the right-of-use asset at the date of initial application.
- used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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)*

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 16 Leases *(continued)*

(1.2) Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessee *(continued)*

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB12,807 million and right-of-use assets of RMB19,112 million at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.01%.

	1 January 2019
Operating lease commitments disclosed as at 31 December 2018 (value added tax included)	14,548
Less: Value added tax	(609)
Operating lease commitments disclosed as at 31 December 2018 (value added tax excluded)	13,939
Lease liabilities discounted at relevant incremental borrowing rates	12,730
Add: Extension options reasonably certain to be exercised	98
Less: Recognition exemption – short-term leases	(18)
Recognition exemption – low value assets	(3)
Lease liabilities relating to operating leases recognised upon application of IFRS 16	12,807
Add: Obligations under finance leases	–
Lease liabilities as at 1 January 2019	12,807

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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)*

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 16 Leases *(continued)*

(1.2) Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessee *(continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	1 January 2019
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	12,807
Add: Reclassified from prepaid lease payments	6,400
– Land use rights	5,412
– Others	988
Less: Accrued lease liabilities	(95)
Right-of-use assets as at 1 January 2019	19,112
By class:	
– Land use rights	5,412
– Buildings	13,690
– Computer equipment	5
– Motor vehicles and others	5

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments under IFRS 16	Carrying amounts under IFRS 16 at 1 January 2019
Assets			
Right-of-use assets	N/A	19,112	19,112
Intangible assets	9,150	(5,412)	3,738
Other assets	32,568	(988)	31,580
Liabilities			
Lease liabilities	N/A	12,807	12,807
Other liabilities	69,318	(95)	69,223

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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)*

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 16 Leases *(continued)*

(1.2) Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Sales and leaseback transactions

The Group acts as a buyer-lessor

In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of IFRS 16, the Group as a buyer-lessor does not recognise the transferred asset if such transfer does not satisfy the requirements of IFRS 15 as a sale.

(b) Accounting estimates and judgements

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

The Group's 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 2018.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

3. Interest Income

	Six months ended 30 June	
	2019	2018
Loans and advances to customers		
– Corporate loans	38,739	36,121
– Retail loans	66,144	53,730
– Discounted bills	4,195	4,255
Balances with central banks	3,807	4,027
Balances with banks and other financial institutions	962	992
Placements with banks and other financial institutions	4,218	4,197
Amounts held under resale agreements	2,206	3,755
Investments	24,246	24,098
– Debt investments at fair value through other comprehensive income	6,844	5,731
– Debt investments at amortised cost	17,402	18,367
Interest income on financial assets measured at amortised cost and fair value through other comprehensive income	144,517	131,175

Note: For the six months ended 30 June 2019, included in the above is interest income of RMB165 million accrued on impaired loans (for the six months ended 30 June 2018: RMB179 million), RMB5 million on impaired debt securities investments (for the six months ended 30 June 2018: nil), and RMB4,752 million on loans and advances to customers at fair value through other comprehensive income (for the six months ended 30 June 2018: RMB4,431 million).

4. Interest Expense

	Six months ended 30 June	
	2019	2018
Deposits from customers	34,113	29,667
Borrowing from central bank	4,880	5,447
Deposits from banks and other financial institutions	5,143	6,394
Placements from banks and other financial institutions	3,195	3,806
Amounts sold under repurchase agreements	1,341	2,238
Debt securities issued	8,177	6,611
Lease liabilities	261	N/A
Interest expense on financial liabilities measured at amortised cost and lease liabilities	57,110	54,163

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

5. Fee and Commission Income

	Six months ended 30 June	
	2019	2018
Bank cards fees	9,654	8,126
Remittance and settlement fees	6,574	5,359
Agency services fees	8,168	9,022
Commissions from credit commitment and lending business	3,601	3,950
Commissions on trust and fiduciary activities	12,278	12,432
Others	2,237	1,509
Total	42,512	40,398

6. Other Net Income

	Six months ended 30 June	
	2019	2018
Profit (loss) from fair value change		
– financial instruments at FVTPL	418	991
– derivatives instruments	(258)	148
– precious metals	(172)	(83)
Investment income		
– financial instruments at FVTPL	5,374	5,226
– disposal of financial instruments at amortised cost	(12)	1
– disposal of debt instruments at FVTOCI	1,699	773
– of which: gain on disposal of bills	1,222	776
– dividend income from equity investments designated at FVTOCI	153	133
– others	46	9
Exchange gain	1,326	1,559
Other income		
– lease income on operating leases	1,955	1,628
– insurance income	184	156
Others	539	239
Total	11,252	10,780

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

7. Operating Expenses

	Six months ended 30 June	
	2019	2018
Staff costs		
– Salaries and bonuses	17,633	15,183
– Social insurance and corporate supplemental insurance	3,827	3,352
– Others	3,115	2,988
Subtotal	24,575	21,523
Tax and surcharges	1,143	987
Property, equipment and investment properties depreciation	2,924	2,503
Intangible assets amortisation	465	472
Right-of-use assets depreciation and amortisation	2,154	N/A
Rental expenses	N/A	2,144
Other general and administrative expenses	9,023	7,992
Subtotal	15,709	14,098
Charge for insurance claims	117	108
Total	40,401	35,729

8. Expected Credit Losses

	Six months ended 30 June	
	2019	2018
Loans and advances to customers	29,512	30,378
Amounts due from banks and other financial institutions	(194)	(106)
Investments		
– Debt investments at amortised cost	897	662
– Debt investments at FVTOCI	840	597
Expected credit losses relating to financial guarantees and loan commitments	1,740	(166)
Others	269	64
Total	33,064	31,429

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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	
	2019	2018
Current income tax expense		
– Mainland China	19,922	17,283
– Hong Kong	492	520
– Overseas	61	113
Subtotal	20,475	17,916
Deferred taxation	(6,460)	(3,840)
Total	14,015	14,076

(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	
	2019	2018
Profit before taxation	64,873	58,945
Tax at the PRC statutory income tax rate of 25% (six months ended 30 June 2018: 25%)	16,218	14,741
Tax effects of the following items:		
– Effects of non-deductible expenses	492	406
– Effects of non-taxable income	(3,775)	(2,773)
– Effects of different applicable rates of tax prevailing in other jurisdictions	(256)	(130)
– Transfer out of prior year deferred tax assets	1,336	1,832
Income tax expense	14,015	14,076

Notes:

- (i) The applicable income tax rate for the Bank's Mainland China operations is 25% for the six months ended 30 June 2019. (Six months ended 30 June 2018: 25%).
- (ii) Taxation for Hong Kong and overseas operations is charged at the applicable rates of tax prevailing in relevant regions.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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					
	2019			2018		
	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						
– Fair value (loss)/gain on debt instruments measured at FVTOCI	(449)	110	(339)	3,440	(891)	2,549
– Net changes in expected credit losses of debt instruments measured at FVTOCI	757	(157)	600	500	(18)	482
– Net movement in cash flow hedge reserve	(116)	19	(97)	195	(41)	154
– Equity-accounted investees-share of other comprehensive income	171	–	171	(86)	–	(86)
– Exchange difference on translation of financial statements of foreign operations	23	–	23	579	–	579
Items that will not be reclassified subsequently to profit or loss						
– Fair value gain on equity instruments measured at FVTOCI	683	(176)	507	156	(34)	122
– Remeasurement of defined benefit scheme redesigned through reserve	9	(2)	7	–	–	–
Other comprehensive income	1,078	(206)	872	4,784	(984)	3,800

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

10. Other Comprehensive Income *(continued)*

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

	Six months ended 30 June	
	2019	2018
Reserve changes in debt instruments at FVTOCI		
Changes in fair value recognised during the period	1,360	3,322
Reclassification adjustments for amounts transferred to profit or loss		
– On disposal	(1,699)	(773)
Net movement in the debt instrument revaluation reserve during the period recognised in other comprehensive income	(339)	2,549
Changes in expected credit losses in financial assets at FVTOCI		
Changes in expected credit losses recognised during the period	600	482
Net movement in the debt instrument revaluation reserve during the period recognised in other comprehensive income	600	482
Cash flow hedge		
Effective portion of changes in fair value of hedging instruments	(98)	119
Reclassification adjustment for realised gains(loss) transferred to profit or loss	1	35
Net movement in the hedging reserve during the period recognised in other comprehensive income	(97)	154
Equity instruments measured FVTOCI		
Changes in fair value recognised during the period	507	122
Net movement in the equity investment revaluation reserve during the period recognised in other comprehensive income	507	122

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

11. Earnings Per Share

The calculation of basic earnings per share for the six months ended 30 June 2019 and 2018 is based on the net profit attributable to equity holders 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 2019 and 2018.

	Six months ended 30 June	
	2019	2018
Net profit attributable to equity holders of the Bank	50,612	44,756
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)	2.01	1.77

Note:

The Bank issued non-cumulative preference shares 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 holders of the Bank. There are no dividends on non-cumulative preference shares declared during the six months ended 30 June 2019 and 2018.

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 2019. Therefore the conversion feature of preference shares has no effect on the diluted earnings per share calculation.

12. Balances with Central Banks

	30 June 2019	31 December 2018
Statutory deposit reserve (note (i))	458,156	438,777
Surplus deposit reserve (note (ii))	74,854	36,488
Fiscal deposits	2,426	2,056
Interest receivable	233	247
Total	535,669	477,568

Notes: (i) Statutory deposit reserve funds are deposited with The People's Bank of China ("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 of the Bank are calculated at 11% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 30 June 2019 (31 December 2018: 11% and 5% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organizations, retail deposits, corporate deposits, and net credit balances of entrusted business and RMB deposits placed by the financial institutions outside mainland China.

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

13. Balances with Banks and Other Financial Institutions

	30 June 2019	31 December 2018
Principal (a)	87,840	100,022
Impairment losses (a)(b)	(138)	(171)
Subtotal	87,702	99,851
Interest receivable	198	309
Total	87,900	100,160

(a) Analysed by nature of counterparties

	30 June 2019	31 December 2018
Balances in Mainland China		
– Banks	56,889	60,222
– Other financial institutions	3,320	2,833
Subtotal	60,209	63,055
Balances outside Mainland China		
– Banks	27,558	36,861
– Other financial institutions	73	106
Subtotal	27,631	36,967
Total	87,840	100,022
Less: Impairment allowances		
– Banks	(130)	(133)
– Other financial institutions	(8)	(38)
Subtotal	(138)	(171)
Total	87,702	99,851

(b) Movements of allowances for losses are as follows:

	2019	2018
Balance as at the end of last period/year	171	116
Adjustments under IFRS 9	N/A	22
Balance as at the beginning of the period/year	171	138
(Release)/charge for the period/year	(33)	43
Exchange difference	–	(10)
Balance as at 30 June/31 December	138	171

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

14. Placements with Banks and Other Financial Institutions

	30 June 2019	31 December 2018
Principal (a)	209,015	312,559
Impairment allowances (a)(c)	(226)	(405)
Subtotal	208,789	312,154
Interest receivable	1,124	1,257
Total	209,913	313,411

(a) Analysed by nature of counterparties

	30 June 2019	31 December 2018
Placements in Mainland China		
– Banks	58,270	99,487
– Other financial institutions	93,527	136,274
Subtotal	151,797	235,761
Placements outside Mainland China		
– Banks	57,218	76,798
Subtotal	57,218	76,798
Total	209,015	312,559
Less: Impairment allowances		
– Banks	(138)	(180)
– Other financial institutions	(88)	(225)
Subtotal	(226)	(405)
Total	208,789	312,154

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

14. Placements with Banks and Other Financial Institutions *(continued)*

(b) Analysed by remaining maturity

	30 June 2019	31 December 2018
Maturing		
– Within one month (inclusive)	94,845	208,432
– Between one month and one year (inclusive)	111,278	102,493
– Over one year	2,666	1,229
Total	208,789	312,154

(c) Movements of allowances for impairment allowances are as follows:

	2019	2018
Balance as at the end of last period/year	405	135
Adjustments under IFRS 9	N/A	49
Balance as at the beginning of the period/year	405	184
(Release)/charge for the period/year	(179)	218
Exchange difference	–	3
Balance as at 30 June/31 December	226	405

15. Amounts Held under Resale Agreements

	30 June 2019	31 December 2018
Principal (a)	259,748	199,918
Impairment allowances (a)(d)	(755)	(737)
Subtotal	258,993	199,181
Interest receivable	47	205
Total	259,040	199,386

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

15. Amounts Held under Resale Agreements *(continued)*

(a) Analysed by nature of counterparties

	30 June 2019	31 December 2018
Amounts held under resale agreements in Mainland China		
– Banks	71,638	47,793
– Other financial institutions	188,110	152,125
Subtotal	259,748	199,918
Less: Impairment allowances		
– Banks	(94)	(229)
– Other financial institutions	(661)	(508)
Subtotal	(755)	(737)
Total	258,993	199,181

(b) Analysed by remaining maturity

	30 June 2019	31 December 2018
Maturing		
– Within one month (inclusive)	258,364	198,183
– Between one month and one year (inclusive)	629	998
Total	258,993	199,181

(c) Analysed by assets types

	30 June 2019	31 December 2018
Bonds	246,422	188,429
Bills	12,571	10,752
Total	258,993	199,181

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

15. Amounts Held under Resale Agreements *(continued)*

(d) Movements of allowances for impairment allowances are as follows:

	2019	2018
Balance as at the end of last period/year	737	754
Adjustments under IFRS 9	N/A	610
Balance as at the beginning of the period/year	737	1,364
Charge/(Release) for the period/year	18	(629)
Exchange difference	–	2
Balance as at 30 June/31 December	755	737

16. Loans and Advances to Customers

(a) Loans and advances to customers

	30 June 2019	31 December 2018
Gross loans and advances to customers at amortised cost (i)	4,035,485	3,755,264
Interest receivable	9,293	8,810
Subtotal	4,044,778	3,764,074
Loss allowances of loans and advances to customers at amortised cost (i)	(209,612)	(191,772)
Loss allowances of interest receivable	(160)	(123)
Subtotal	(209,772)	(191,895)
Loans and advances to customers at amortised cost	3,835,006	3,572,179
Loans and advances to customers at FVTOCI (ii)	287,627	177,367
Loans and advances to customers at FVTPL	418	403
Total	4,123,051	3,749,949

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(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

	30 June 2019	31 December 2018
Corporate loans and advances	1,796,153	1,745,925
Retail loans and advances	2,239,057	2,009,339
Discounted bills	275	–
Gross loans and advances to customers at amortised cost	4,035,485	3,755,264
Less: loss allowances		
– Stage 1 (12-month ECL)	(127,864)	(105,978)
– Stage 2 (Lifetime ECL – not credit-impaired)	(35,543)	(38,517)
– Stage 3 (Lifetime ECL – credit impaired)	(46,205)	(47,277)
Subtotal	(209,612)	(191,772)
Net loans and advances to customers at amortised cost	3,825,873	3,563,492

(ii) Loans and advances to customers at FVTOCI

	30 June 2019	31 December 2018
Corporate loans and advances	37,313	27,601
Discounted bills	250,314	149,766
Loans and advances to customers at FVTOCI	287,627	177,367
Loss allowances		
– Stage 1 (12-month ECL)	(110)	(187)
– Stage 2 (Lifetime ECL- not credit-impaired)	(35)	(41)
– Stage 3 (Lifetime ECL- credit impaired)	–	–
Subtotal	(145)	(228)

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and Advances to Customers *(continued)*

(b) Analysis of loans and advances to customers

(i) *Analysed by industry sector and category:*

Operation in the Mainland China

	30 June 2019	31 December 2018
Property development	292,426	262,323
Manufacturing	235,749	255,683
Transportation, storage and postal services	267,963	248,815
Wholesale and retail	157,561	157,984
Production and supply of electric power, heating power, gas and water	141,534	138,773
Leasing and commercial services	138,555	124,094
Construction	88,628	84,475
Financial concerns	65,971	61,963
Telecommunications, software and IT services	58,647	60,703
Water, environment and public utilities management	53,665	55,890
Mining	30,662	35,349
Others	59,313	59,021
Corporate loans and advances subtotal	1,590,674	1,545,073
Discounted bills	250,589	149,766
Residential mortgage	1,027,144	921,500
Credit cards	652,467	575,299
Micro-finance loans	381,874	349,009
Others	147,151	141,835
Retail loans and advances subtotal	2,208,636	1,987,643
Gross loans and advances to customers	4,049,899	3,682,482

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and Advances to Customers *(continued)*

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

(i) *Analysed by industry sector and category: (continued)*

Operation outside Mainland China

	30 June 2019	31 December 2018
Property development	49,189	54,167
Financial concerns	48,976	52,174
Transportation, storage and postal services	35,675	38,212
Manufacturing	27,845	26,860
Wholesale and retail	11,187	12,505
Telecommunications, software and IT services	7,483	9,309
Production and supply of electric power, heating power, gas and water	6,771	7,889
Construction	5,870	5,635
Mining	9,433	2,196
Leasing and commercial services	6,961	2,001
Water, environment and public utilities management	201	26
Others	33,619	17,882
Corporate loans and advances subtotal	243,210	228,856
Residential mortgage	8,465	7,260
Credit cards	168	191
Micro-finance loans	1,483	1,525
Others	20,305	12,720
Retail loans and advances subtotal	30,421	21,696
Gross loans and advances to customers	273,631	250,552

As at 30 June 2019, over 90% of the Group's loans and advances to customers were conducted in the People's Republic of China (31 December 2018: over 90%).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and Advances to Customers *(continued)***(b) Analysis of loans and advances to customers** *(continued)***(ii) Analyzed by ECL**

	30 June 2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit- impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Loans and advances measured at amortised cost	3,906,839	75,423	53,223	4,035,485
Less: Loss allowances of loans and advances to customers at amortised cost	(127,864)	(35,543)	(46,205)	(209,612)
Net loans and advances to customers at amortised cost	3,778,975	39,880	7,018	3,825,873
Loans and advances to customers at FVTOCI	285,315	2,312	–	287,627
Loss allowances of loans and advances to customers at FVTOCI	(110)	(35)	–	(145)

	31 December 2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit- impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Loans and advances measured at amortised cost	3,610,711	90,942	53,611	3,755,264
Less: Loss allowances of loans and advances to customers at amortised cost	(105,978)	(38,517)	(47,277)	(191,772)
Net loans and advances to customers at amortised cost	3,504,733	52,425	6,334	3,563,492
Loans and advances to customers at FVTOCI	175,078	2,289	–	177,367
Loss allowances of loans and advances to customers at FVTOCI	(187)	(41)	–	(228)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and Advances to Customers *(continued)*

(c) Movements of allowances for impairment losses

(i) Reconciliation of allowance for expected credit loss measured at amortised cost:

	For the six months ended 30 June 2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit- impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at 1 January 2019	105,978	38,517	47,277	191,772
Transfer to				
– Stage 1	3,198	(3,134)	(64)	–
– Stage 2	(507)	1,289	(782)	–
– Stage 3	(312)	(9,234)	9,546	–
Charge/(release) for the period	19,464	8,093	2,038	29,595
Write-offs/disposals	–	–	(16,126)	(16,126)
Unwinding of discount on allowance	–	–	(165)	(165)
Recovery of loans and advances written off	–	–	4,468	4,468
Exchange difference	43	12	13	68
Balance as at 30 June 2019	127,864	35,543	46,205	209,612

	For the year ended 31 December 2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit- impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at 1 January 2018	68,107	33,815	49,418	151,340
Transfer to				
– Stage 1	1,545	(1,462)	(83)	–
– Stage 2	(1,624)	1,951	(327)	–
– Stage 3	(845)	(6,341)	7,186	–
Charge/(release) for the year	38,643	10,505	10,056	59,204
Write-offs/disposals	–	–	(26,197)	(26,197)
Unwinding of discount on allowance	–	–	(307)	(307)
Recovery of loans and advances written off	–	–	7,453	7,453
Exchange difference	152	49	78	279
Balance as at 31 December 2018	105,978	38,517	47,277	191,772

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and Advances to Customers *(continued)*

(c) Movements of allowances for impairment losses *(continued)*

(ii) Reconciliation of allowance for impairment losses measured at FVTOCI:

	2019	2018
Balance as at the end of last period/year	228	–
Adjustments under IFRS 9	N/A	180
Balance as at the beginning of the period/year	228	180
(Reversal)/charge for the period/year	(83)	48
Balance as at 30 June 2019/31 December 2018	145	228

(d) Finance leases receivable

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

	30 June 2019
Total minimum leases receivable	
Within 1 year (inclusive)	35,232
Over 1 year but within 2 years (inclusive)	27,309
Over 2 years but within 3 years (inclusive)	20,870
Over 3 years but within 4 years (inclusive)	14,401
Over 4 years but within 5 years (inclusive)	10,331
Over 5 years	30,850
Subtotal	138,993
Unearned finance income	(18,367)
Present value of minimum leases receivable	120,626
Less: Impairment allowances	
– Stage 1 (12-month ECL)	(2,374)
– Stage 2 (Lifetime ECL- not credit-impaired)	(653)
– Stage 3 (Lifetime ECL -credit impaired)	(884)
Net investment in finance leases receivable	116,715

Note: As stated in note 2, the finance leases receivable at the end of the period does not include the receivable which the group acts as a buyer-lessor during sale and leaseback transactions and the transfer of asset that does not satisfy the requirements of IFRS 15 to be accounted for as a sale of asset. Meanwhile, in accordance with the requirements of IFRS 16, a maturity analysis showing the total minimum leases receivable on an annual basis for each of the first five years and a total of the amounts for the remaining years is disclosed.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and Advances to Customers *(continued)*

(d) Finance leases receivable *(continued)*

	31 December 2018		
	Total minimum leases receivable	Unearned finance income	Present value of minimum leases receivable
Within 1 year (inclusive)	37,900	(4,076)	33,824
Over 1 year but within 5 years (inclusive)	84,166	(11,777)	72,389
Over 5 years	35,053	(6,603)	28,450
Subtotal	157,119	(22,456)	134,663
Less: Impairment allowances			
– Stage 1 (12-month ECL)			(2,411)
– Stage 2 (Lifetime ECL- not credit-impaired)			(492)
– Stage 3 (Lifetime ECL -credit impaired)			(847)
Net investment in finance leases receivable			130,913

17. Investments

	Notes	30 June 2019	31 December 2018
Financial assets at fair value through profit or loss	17(a)	344,001	330,302
Derivative financial assets	41(f)	27,533	34,220
Debt investments at amortised cost	17(b)	925,683	916,012
Debt investments at FVTOCI	17(c)	435,039	421,070
Equity investments designated at FVTOCI	17(d)	5,763	4,015
Total		1,738,019	1,705,619

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

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

	Notes	30 June 2019	31 December 2018
Investments measured at FVTPL	(i)	333,184	314,459
Financial assets designated at fair value through profit or loss	(ii)	8,376	13,184
Subtotal		341,560	327,643
Interest receivable		2,441	2,659
Total		344,001	330,302

(i) Investments measured at FVTPL

Financial assets held for trading

	30 June 2019	31 December 2018
Bonds		
– Government bonds	24,884	20,917
– Bonds issued by policy banks	10,454	9,091
– Bonds issued by commercial banks and other financial institutions	19,621	17,362
– Other debt securities	53,542	47,605
Equity investments	245	111
Investments in funds	3,949	3,306
Long position in precious metal contracts	130	111
Total	112,825	98,503
Bonds		
– Listed inside mainland China	89,773	85,379
– Listed outside mainland China	13,264	8,514
– Unlisted	5,464	1,082
Investments in equity, funds and precious metal contracts		
– Listed inside mainland China	232	84
– Listed outside mainland China	139	121
– Unlisted	3,953	3,323

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments (continued)

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

(i) Investments measured at FVTPL (continued)

Other investments measured at FVTPL

	30 June 2019	31 December 2018
Bonds		
– Bonds issued by commercial banks and other financial institutions	9,092	22,352
– Other debt securities	786	2,338
Non-standard assets -bills	170,046	173,988
Equity investments	1,965	1,450
Investments in funds	37,433	14,765
Wealth management products	1,037	1,060
Others	–	3
Total	220,359	215,956
Bonds		
– Listed inside mainland China	9,481	24,303
– Unlisted	397	387
Non-standard assets -bills		
– Unlisted	170,046	173,988
Investments in equity, funds, wealth management products and others		
– Listed inside mainland China	238	–
– Listed outside mainland China	557	–
– Unlisted	39,640	17,278

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)***(a) Financial assets at fair value through profit or loss** *(continued)***(ii) Financial assets designated at fair value through profit or loss**

	30 June 2019	31 December 2018
Bonds issued by policy banks	1,440	2,310
Bonds issued by commercial banks and other financial institutions	3,333	7,190
Other debt securities	3,603	3,684
Total	8,376	13,184
Classification		
Listed inside mainland China	160	160
Listed outside mainland China	5,067	5,372
Unlisted	3,149	7,652

The amounts of changes in the fair value of these investments that are attributable to changes in credit risk are considered not significant during the six months ended 30 June 2019 and the year ended 31 December 2018 and as at 30 June 2019 and 31 December 2018.

(b) Debt investments at amortised cost

	30 June 2019	31 December 2018
Debt investments at amortised cost (i)(ii)	921,632	911,348
Interest receivable	13,187	12,790
Subtotal	934,819	924,138
Loss allowances of principal (i)(ii)(iii)	(9,060)	(8,080)
Loss allowances of interest receivable	(76)	(46)
Subtotal	(9,136)	(8,126)
Total	925,683	916,012

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(i) Debt investments at amortised cost by type:

	30 June 2019	31 December 2018
Bonds		
– Government bonds	467,874	400,107
– Bonds issued by policy banks	237,583	219,275
– Bonds issued by commercial banks and other financial institutions	32,699	29,602
– Other debt securities	4,155	8,942
Non-standard assets		
– Bills	17,479	43,655
– Loans and advances to customers	161,291	206,229
– Creditor's beneficiary rights to other commercial banks	–	3,000
Others	551	538
Subtotal	921,632	911,348
Less: loss allowances		
– Stage 1 (12-month ECL)	(5,167)	(3,582)
– Stage 2 (Lifetime ECL- not credit-impaired)	(557)	(517)
– Stage 3 (Lifetime ECL- credit impaired)	(3,336)	(3,981)
Total	912,572	903,268
Bonds		
– Listed inside Mainland China	733,560	651,347
– Listed outside Mainland China	4,493	3,490
– Unlisted	4,258	3,089
Fair value for the listed bonds	747,263	666,092
Non-standard assets and others		
– Unlisted	179,321	253,422

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(ii) Analyzed by ECL:

	30 June 2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit- impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Debt investments at amortised cost	916,429	1,230	3,973	921,632
Less: Loss allowances of debt investments at amortised cost	(5,167)	(557)	(3,336)	(9,060)
Net debt investments at amortised cost	911,262	673	637	912,572

	31 December 2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit- impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Debt investments at amortised cost	906,347	960	4,041	911,348
Less: Loss allowances of debt investments at amortised cost	(3,582)	(517)	(3,981)	(8,080)
Net debt investments at amortised cost	902,765	443	60	903,268

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

(b) Debt investments at amortised cost *(continued)*

(iii) Movements of allowances for impairment losses

	For the six months ended 30 June 2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit- impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at 1 January 2019	3,582	517	3,981	8,080
Transfer to:				
– Stage 1	10	(8)	(2)	–
– Stage 2	(1)	3	(2)	–
– Stage 3	–	(5)	5	–
Charge/(release) for the period (Note 8)	1,559	50	(712)	897
Recoveries of debt previously written off	–	–	66	66
Unwinding of discount on allowance	–	–	(1)	(1)
Exchange difference	17	–	1	18
Balance as at 30 June 2019	5,167	557	3,336	9,060

	For the year ended 31 December 2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit- impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at 1 January 2018	4,461	49	2,555	7,065
Transfer to:				
– Stage 1	24	(17)	(7)	–
– Stage 2	(3)	6	(3)	–
– Stage 3	(42)	(9)	51	–
Charge/(release) for the year	(890)	488	1,189	787
Recoveries of debt previously written off	–	–	192	192
Exchange difference	32	–	4	36
Balance as at 31 December 2018	3,582	517	3,981	8,080

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)***(c) Debt investments at FVTOCI**

	30 June 2019	31 December 2018
Debt investments at FVTOCI(i)	429,382	414,691
Interest receivable	5,657	6,379
Total	435,039	421,070
Impairment allowances of debt investments at FVTOCI (ii)	(2,729)	(1,897)
Impairment allowances of interest receivable	(26)	(15)
Total	(2,755)	(1,912)

No impairment allowances are recognised in the unaudited consolidated statement of financial position for debt investments at FVTOCI as the carrying amount is at fair value.

(i) Debt investments at FVTOCI by type:

	30 June 2019	31 December 2018
Government bonds	245,939	220,078
Bonds issued by policy banks	66,108	60,365
Bonds issued by commercial banks and other financial institutions	79,262	98,428
Other debt securities	38,073	35,820
Total	429,382	414,691
Classification		
Listed inside Mainland China	321,270	292,347
Listed outside Mainland China	57,653	50,486
Unlisted	50,459	71,858

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

(c) Debt investments at FVTOCI *(continued)*

(ii) *Movements of allowances for impairment losses*

	30 June 2019	31 December 2018
Balance as at the end of last period/year	1,897	–
Adjustments under IFRS 9	N/A	1,445
Balance as at the beginning of the period/year	1,897	1,445
Charge for the period/year	840	389
Unwinding of discount on allowance	(4)	–
Exchange difference	(4)	63
Balance as at 30 June 2019/31 December 2018	2,729	1,897

(d) Equity investments designated at FVTOCI

	30 June 2019	31 December 2018
Reposessed equity instruments	690	220
Others	5,073	3,795
Total	5,763	4,015
Listed inside Mainland China	228	66
Listed outside Mainland China	1,891	1,410
Unlisted	3,644	2,539

During the six months ended 30 June 2019, the fair value of the equity investment designated at the date of derecognition was RMB46 million (for the year ended 31 December 2018: RMB17 million), the cumulative loss on disposal was RMB9 million (for the year ended 31 December 2018: RMB4 million) which was transferred from investment revaluation reserve to retained profits on disposal.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

18. Interests in Joint Ventures

	30 June 2019	31 December 2018
Share of net assets	9,269	8,622
Share of profits for the period	721	1,272
Share of other comprehensive income (expense) for the period	161	(36)

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	50.00%	50.00%	–	Life insurance business
Merchants Union Consumer Finance Company Limited. (note (ii))	Limited company	Shenzhen	RMB3,868,964	50.00%	24.15%	25.85%	Consumer finance

Notes:

- (i) The Group holds 50.00% equity interests in CIGNA & CMB Life Insurance Company Limited ("CIGNA & CMB Life"), and Life Insurance Company of North America ("INA") holds the other 50.00% equity interests in CIGNA & CMB Life. The Bank and INA share the joint venture's profits, risks and losses based on the above proportion of their shareholding. The Bank's investment in CIGNA & CMB Life is accounted as an investment in a joint venture.
- (ii) The Bank's subsidiary, CMB 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"). China Banking and Insurance Regulatory Commission ("CBIRC") has approved the operation of MUCFC on 3 March 2015. CMB WLB and CUNC hold 50.00% 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%, CMB WLB's shareholding percentage is 35%, and the Group's shareholding percentage remains unchanged. In December 2018, the Group made an additional capital contribution of RMB1,000 million in MUCFC, and the other shareholder of MUCFC injected capital proportionally. The Bank's shareholding percentage is 24.15%, CMB WLB's shareholding percentage is 25.85%, and the Group's shareholding percentage remains unchanged.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

19. Interests in Associates

	30 June 2019	31 December 2018
Share of net assets	416	249
Share of (losses) profits for the period	(13)	37
Share of other comprehensive income (expense) for the period	10	–

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

20. Investment Properties

	2019	2018
Cost:		
At 1 January	3,488	2,855
Transfers in	18	550
Disposals	–	(12)
Exchange difference	7	95
At 30 June/31 December	3,513	3,488
Accumulated depreciation:		
At 1 January	1,427	1,243
Depreciation	82	134
Transfers in	13	17
Disposals	–	(12)
Exchange difference	4	45
At 30 June/31 December	1,526	1,427
Net book value:		
At 30 June/31 December	1,987	2,061
At 1 January	2,061	1,612

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

20. Investment Properties *(continued)*

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	30 June 2019
Within 1 year (inclusive)	478
1 year to 2 years (inclusive)	328
2 year to 3 years (inclusive)	212
3 year to 4 years (inclusive)	76
4 year to 5 years (inclusive)	63
Over 5 years	455
Total	1,612

	31 December 2018
Within 1 year (inclusive)	443
1 year to 5 years (inclusive)	738
Over 5 years	483
Total	1,664

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

21. Property and Equipment

	Leasehold land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2019	25,923	1,646	12,276	7,669	33,904	6,369	87,787
Additions	1,447	293	551	168	4,838	155	7,452
Reclassification and transfers	(18)	–	–	–	–	–	(18)
Disposals	(217)	–	(119)	(68)	(1,170)	(258)	(1,832)
Exchange difference	10	–	16	1	69	3	99
At 30 June 2019	27,145	1,939	12,724	7,770	37,641	6,269	93,488
Accumulated depreciation:							
At 1 January 2019	9,412	–	8,789	4,869	3,169	5,342	31,581
Depreciation	609	–	844	278	885	226	2,842
Reclassification and transfers	(13)	–	–	–	–	–	(13)
Disposals	(134)	–	(112)	(54)	(173)	(251)	(724)
Exchange difference	5	–	5	1	16	–	27
At 30 June 2019	9,879	–	9,526	5,094	3,897	5,317	33,713
Net book value:							
At 30 June 2019	17,266	1,939	3,198	2,676	33,744	952	59,775
At 1 January 2019	16,511	1,646	3,487	2,800	30,735	1,027	56,206

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

21. Property and Equipment (continued)

	Leasehold 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	65	805	2,309	736	8,437	431	12,783
Reclassification and transfers	982	(1,641)	–	109	–	–	(550)
Disposals	(151)	–	(252)	(19)	(2,094)	(490)	(3,006)
Exchange difference	180	–	54	14	1,141	12	1,401
At 31 December 2018	25,923	1,646	12,276	7,669	33,904	6,369	87,787
Accumulated depreciation:							
At 1 January 2018	8,134	–	7,673	4,305	1,947	5,288	27,347
Depreciation	1,220	–	1,344	576	1,459	537	5,136
Reclassification and transfers	(17)	–	–	–	–	–	(17)
Disposals	(19)	–	(252)	(18)	(256)	(487)	(1,032)
Exchange difference	94	–	24	6	19	4	147
At 31 December 2018	9,412	–	8,789	4,869	3,169	5,342	31,581
Net book value:							
At 31 December 2018	16,511	1,646	3,487	2,800	30,735	1,027	56,206
At 1 January 2018	16,713	2,482	2,492	2,524	24,473	1,128	49,812

- (a) As at 30 June 2019, the Group considered that there is no impairment loss on property and equipment (31 December 2018: nil).
- (b) As at 30 June 2019, the Group has no significant unused property and equipment (31 December 2018: nil).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

21. Property and Equipment (continued)

- (c) The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	30 June 2019
Within 1 year (inclusive)	3,944
1 year to 2 years (inclusive)	3,821
2 year to 3 years (inclusive)	3,674
3 year to 4 years (inclusive)	3,441
4 year to 5 years (inclusive)	2,979
Over 5 years	11,290
Total	29,149

	31 December 2018
Within 1 year (inclusive)	3,472
1 year to 5 years (inclusive)	12,656
Over 5 years	10,606
Total	26,734

22. Right-of-Use Assets

	Land use rights	Buildings	Computer equipment	Motor vehicles and others	Total
Net book value at 30 June 2019	5,319	13,909	4	4	19,236
Depreciation and amortisation charged for the period	93	2,059	1	1	2,154

During the six months ended 30 June 2019, the additions to right-of-use assets is RMB2,422 million.

As at 30 June 2019, the Group considered that there is no impairment loss on right-of-use assets.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

23. Intangible Assets

	Land use rights	Software and others	Core deposits	Total
Cost:				
At 31 December 2018	6,074	6,322	1,162	13,558
Adjustments under IFRS 16	(6,074)	–	–	(6,074)
At 1 January 2019	–	6,322	1,162	7,484
Additions	–	795	–	795
Exchange difference	–	–	4	4
At 30 June 2019	–	7,117	1,166	8,283
Amortisation:				
At 31 December 2018	662	3,319	427	4,408
Adjustments under IFRS 16	(662)	–	–	(662)
At 1 January 2019	–	3,319	427	3,746
Additions (Note 7)	–	445	20	465
Exchange difference	–	–	1	1
At 30 June 2019	–	3,764	448	4,212
Net book value:				
At 30 June 2019	–	3,353	718	4,071
At 1 January 2019	–	3,003	735	3,738

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

23. Intangible Assets (continued)

	Land use rights	Software and others	Core deposits	Total
Cost:				
At 1 January 2018	4,634	4,923	1,095	10,652
Additions	3,224	1,398	–	4,622
Transfers	(1,785)	–	–	(1,785)
Disposals	(4)	(4)	–	(8)
Exchange difference	5	5	67	77
At 31 December 2018	6,074	6,322	1,162	13,558
Amortisation:				
At 1 January 2018	426	2,613	358	3,397
Additions	237	706	40	983
Disposals	(2)	(3)	–	(5)
Exchange difference	1	3	29	33
At 31 December 2018	662	3,319	427	4,408
Net book value:				
At 31 December 2018	5,412	3,003	735	9,150
At 1 January 2018	4,208	2,310	737	7,255

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

24. Goodwill

	As at 1 January 2019	As at 30 June 2019	Impairment loss at 1 January 2019 and 30 June 2019	Net value at 1 January 2019 and 30 June 2019
CMB WLB (note (i))	10,177	10,177	(579)	9,598
CMFM (note (ii))	355	355	–	355
Zhaoyin Internet (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 CMB WLB. On the acquisition date, the fair value of CMB 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 769 million 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 Zhaoyin Internet Technology (shenzhen) Corporation Limited ("Zhaoyin Internet"). On the acquisition date, the fair value of Zhaoyin Internet's identifiable net assets was RMB3 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. Zhaoyin Internet'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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

25. Deferred Tax Assets, Deferred Tax Liabilities

	30 June 2019	31 December 2018
Deferred tax assets	64,603	58,374
Deferred tax liabilities	(1,186)	(1,211)
Net amount	63,417	57,163

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

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

	30 June 2019		31 December 2018	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advances to customers at amortised cost and other assets	225,853	56,351	206,932	51,684
Financial assets at FVTOCI	(6,062)	(1,516)	(5,899)	(1,475)
Financial assets at FVTPL	10,279	2,570	7,758	1,940
Salary and welfare payable	20,571	5,143	18,582	4,646
Others	9,456	2,055	6,980	1,579
Total	260,097	64,603	234,353	58,374
Deferred tax liabilities				
Impairment allowances on loans and advances to customers at amortised cost and other assets	207	45	207	34
Financial assets at FVTOCI	239	14	244	38
Financial assets at FVTPL	(93)	(19)	(116)	(29)
Others	(8,320)	(1,226)	(8,524)	(1,254)
Total	(7,967)	(1,186)	(8,189)	(1,211)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

25. Deferred Tax Assets, Deferred Tax Liabilities *(continued)***(b) Movements of deferred tax are as follows:**

	Impairment allowances on loans and advances at amortised cost to customers and other assets	Financial instruments at FVTOCI	Financial instruments at FVTPL	Salary and welfare payable	Others	Total
At 1 January 2019	51,718	(1,437)	1,911	4,646	325	57,163
Recognised in profit or loss	4,676	157	640	497	490	6,460
Recognised in other comprehensive Income	–	(223)	–	–	17	(206)
Exchange difference	2	1	–	–	(3)	–
At 30 June 2019	56,396	(1,502)	2,551	5,143	829	63,417

	Impairment allowances on loans and advances at amortised cost to customers and other assets	Financial instruments at FVTOCI	Financial instruments at FVTPL	Available-for-sale financial assets	Salary and welfare payable	Others	Total
At 31 December 2017	41,647	–	1,857	1,308	3,884	354	49,050
Adjustments under IFRS 9	2,247	921	351	(1,308)	N/A	–	2,211
At 1 January 2018	43,894	921	2,208	–	3,884	354	51,261
Recognised in profit or loss	7,819	(6)	(297)	N/A	762	21	8,299
Recognised in other comprehensive Income	–	(2,352)	–	N/A	–	(19)	(2,371)
Exchange difference	5	–	–	N/A	–	(31)	(26)
At 31 December 2018	51,718	(1,437)	1,911	N/A	4,646	325	57,163

Note: No deferred tax liability has been recognised in respect of temporary differences associated with investments in 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

26. Deposits from Banks and Other Financial Institutions

	30 June 2019	31 December 2018
Principal (a)	550,429	469,008
Interest payable	2,131	1,818
Total	552,560	470,826

(a) Analysed by nature of counterparties

	30 June 2019	31 December 2018
In Mainland China		
– Banks	118,045	108,732
– Other financial institutions	424,943	350,347
Subtotal	542,988	459,079
Outside Mainland China		
– Banks	7,272	9,897
– Other financial institutions	169	32
Subtotal	7,441	9,929
Total	550,429	469,008

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

27. Placements from Banks and Other Financial Institutions

	30 June 2019	31 December 2018
Principal (a)	174,582	202,974
Interest payable	669	976
Total	175,251	203,950

(a) Analysed by nature of counterparties

	30 June 2019	31 December 2018
In Mainland China		
– Banks	89,178	81,876
– Other financial institutions	11,760	48,311
Subtotal	100,938	130,187
Outside Mainland China		
– Banks	73,461	72,769
– Other financial institutions	183	18
Subtotal	73,644	72,787
Total	174,582	202,974

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

28. Financial Liabilities at Fair Value through Profit or Loss

	30 June 2019	31 December 2018
Financial liabilities held for trading (a)	16,452	18,962
Financial liabilities designated at fair value through profit or loss (b)	26,622	25,138
Interest payable	53	44
Total	43,127	44,144

(a) Financial liabilities held for trading

	30 June 2019	31 December 2018
Financial liabilities related to precious metal	14,646	17,872
Short selling securities	1,806	1,090
Total	16,452	18,962

(b) Financial liabilities designated at fair value through profit or loss

	30 June 2019	31 December 2018
In Mainland China		
– Precious metal contracts with other banks	10,696	9,663
– Others	2,764	2,879
Outside Mainland China		
– Certificates of deposit issued	2,260	2,619
– Debt securities issued	10,076	9,977
– Others	826	–
Total	26,622	25,138

As at 30 June 2019 and 31 December 2018, the difference between the fair values of the Group's financial liabilities designated at fair value through profit or loss and the contractual payable at maturity is not significant. The amounts of changes in the fair value that are attributable to changes in credit risk of these liabilities are not significant during the six months ended 30 June 2019 and the year ended 31 December 2018 and as at 30 June 2019 and 31 December 2018.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

29. Amounts Sold under Repurchase Agreements

	30 June 2019	31 December 2018
Principal (a) (b)	90,313	78,029
Interest payable	31	112
Total	90,344	78,141

(a) Analysed by nature of counterparties

	30 June 2019	31 December 2018
In Mainland China		
– Banks	82,636	69,089
– Other financial institutions	1,042	1,171
Subtotal	83,678	70,260
Outside Mainland China		
– Banks	6,635	7,769
Subtotal	6,635	7,769
Total	90,313	78,029

(b) Analysed by assets type

	30 June 2019	31 December 2018
Debt securities		
– PRC government bonds	28,590	41,391
– Bonds issued by policy banks	16,968	21,399
– Bonds issued by commercial banks and other financial institutions	2,190	5,469
– Other debt securities	2,960	1,917
Subtotal	50,708	70,176
Discounted bills	39,605	7,853
Total	90,313	78,029

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

30. Deposits from Customers

	30 June 2019	31 December 2018
Principal (a)	4,699,738	4,400,674
Interest payable	27,396	26,892
Total	4,727,134	4,427,566

(a) Analysed by nature of counterparties

	30 June 2019	31 December 2018
Corporate customers		
– Demand deposits	1,695,441	1,645,684
– Time deposits	1,333,140	1,192,037
Subtotal	3,028,581	2,837,721
Retail customers		
– Demand deposits	1,078,895	1,059,923
– Time deposits	592,262	503,030
Subtotal	1,671,157	1,562,953
Total	4,699,738	4,400,674

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

31. Provision

	30 June 2019	31 December 2018
Expected credit loss provision	6,305	4,565
Others	1,100	1,100
Total	7,405	5,665

Expected credit loss provision as for loan commitments and financial guarantee contracts follows:

30 June 2019				
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit- impaired)	– Stage 3 (Lifetime ECL-credit impaired)	Total
Expected credit loss provision	4,402	1,222	681	6,305

31 December 2018				
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit- impaired)	– Stage 3 (Lifetime ECL-credit impaired)	Total
Expected credit loss provision	2,934	1,221	410	4,565

32. Debt Securities Issued

	Notes	30 June 2019	31 December 2018
Subordinated notes issued	(a)	34,425	45,714
Long-term debt securities issued	(b)	111,165	104,483
Negotiable interbank certificates of deposit		326,540	245,406
Certificates of deposit issued		26,389	26,724
Interest payable		3,383	2,599
Total		501,902	424,926

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

32. 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)	Discount or premium amortisation (RMB in million)	Repayment during the period (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	180 months	28 Dec 2012	5.20	RMB11,700	11,693	(4)	–	11,689
Fixed rate bond	120 months	18 Apr 2014	6.40	RMB11,300	11,285	15	(11,300)	–
Fixed rate bond	120 months	15 Nov 2018	4.65	RMB20,000	19,993	(3)	–	19,990
Total					42,971	8	(11,300)	31,679

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

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange rate fluctuation (RMB in million)	Ending balance (RMB in million)
Fixed to floating rate notes	120 months	22 Nov 2017	3.75 (for the first 5 years); T*+1.75% (from 6 year onwards, if the notes are not called by the Bank)	USD400	2,743	–	3	2,746
Total					2,743	–	3	2,746

* T represents the 5 years US Treasury rate.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

32. Debt Securities Issued *(continued)* (b) Long-term debt securities issued

As at the end of 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	Beginning balance	Issue during the period	Discount or premium amortisation	Exchange rate fluctuation	Ending balance
			(%)	(in million)	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)	(RMB in million)
Fixed rate bond	36 months	22 May 2017	4.20	RMB18,000	17,984	-	5	-	17,989
Medium term note	36 months	12 Jun 2017	3M Libor+0.825	USD800	5,496	-	15	(11)	5,500
Fixed rate bond	36 months	14 Sep 2017	4.30	RMB12,000	11,990	-	2	-	11,992
Fixed rate bond	36 months	17 Aug 2018	3.95	RMB30,000	29,964	-	7	-	29,971
Medium term note	36 months	19 Jun 2019	3M Libor+0.740	USD600	-	4,121	(12)	4	4,113
Medium term note	36 months	19 Jun 2019	0.25	EUR300	-	2,346	(7)	1	2,340
Total					65,434	6,467	10	(6)	71,905

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

32. 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)	Exchange rate fluctuation (RMB in million)	Repayment during the period (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	60 months	11 Aug 2014	3.25	USD500	3,431	-	5	(5)	-	3,431
Fixed rate bond	36 months	11 Mar 2016	3.27	RMB3,800	3,798	-	2	-	(3,800)	-
Fixed rate bond (note (i))	36 months	29 Nov 2016	2.63	USD300	2,056	-	-	6	-	2,062
Fixed rate bond	60 months	29 Nov 2016	3.25	USD900	6,157	-	-	17	-	6,174
Leased asset backed securities	31 months	21 Feb 2017	4.3/4.5/4.73	RMB4,930	706	-	(5)	-	(618)	83
Fixed rate bond	36 months	15 Mar 2017	4.50	RMB4,000	3,992	-	3	-	-	3,995
Fixed rate bond (note (ii))	36 months	5 Jul 2017	4.80	RMB1,500	1,497	-	2	-	-	1,499
Fixed rate bond (note (iii))	36 months	20 Jul 2017	4.89	RMB2,500	2,496	-	1	-	-	2,497
Fixed rate bond	36 months	3 Aug 2017	4.60	RMB2,000	1,997	-	1	-	-	1,998
Fixed rate bond (note (iv))	36 months	14 Mar 2018	5.24	RMB4,000	3,989	-	5	-	-	3,994
Fixed rate bond (note (v))	36 months	9 May 2018	4.80	RMB4,000	3,989	-	5	-	-	3,994
Fixed rate bond	36 months	16 Jul 2018	4.50	RMB4,000	3,989	-	4	-	-	3,993
Fixed rate bond (note (vi))	36 months	14 Mar 2019	3.50	RMB1,500	-	1,495	1	-	-	1,496
Fixed rate bond (note (vii))	60 months	14 Mar 2019	4.00	RMB500	-	499	-	-	-	499
Fixed rate bond	36 months	28 May 2019	3.68	RMB3,000	-	2,991	1	-	-	2,992
Total					38,097	4,985	25	18	(4,418)	38,707

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

32. Debt Securities Issued *(continued)***(b) Long-term debt securities issued** *(continued)*

Notes:

- (i) The Bank holds financial bonds issued by CMBFLC amounted to USD30 million, equivalent to RMB207 million as of 30 June 2019 (31 December 2018: USD30 million, equivalent to RMB207 million).
- (ii) The Bank holds financial bonds issued by CMBFLC amounted to RMB300 million as of 30 June 2019 (31 December 2018: RMB300 million).
- (iii) The Bank holds financial bonds issued by CMBFLC amounted to RMB200 million as of 30 June 2019 (31 December 2018: RMB200 million).
- (iv) The Bank holds financial bonds issued by CMBFLC amounted to RMB260 million as of 30 June 2019 (31 December 2018: RMB260 million).
- (v) The Bank holds financial bonds issued by CMBFLC amounted to RMB140 million as of 30 June 2019 (31 December 2018: RMB140 million).
- (vi) The Bank holds financial bonds issued by CMBFLC amounted to RMB300 million as of 30 June 2019 (31 December 2018: nil).
- (vii) The Bank holds financial bonds issued by CMBFLC amounted to RMB100 million as of 30 June 2019 (31 December 2018: nil).

As at the end of the reporting period, long-term debt securities issued by CMBI 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)	Exchange rate fluctuation (RMB in million)	Ending balance (RMB in million)
Medium term note	36 months	USD250 million on 16 July 2018, USD50 million on 7 August 2018	3M Libor+1.280	USD300	2,060	-	-	1	2,061
Total					2,060	-	-	1	2,061

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

33. Share Capital

By type of share:

	30 June 2019	31 December 2018
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.

	Share Capital	
	No. of shares (in million)	Amount
At 1 January 2019 and at 30 June 2019	25,220	25,220

34. Preference Shares

	30 June 2019		31 December 2018	
	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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

34. 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 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, after the fifth anniversary of the issuance date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, 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 the US Dollar settled non-cumulative 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

34. Preference Shares *(continued)*

Notes: *(continued)*

(ii) *(continued)*

The Domestic Preference Shares have no maturity date. However, after the fifth anniversary of the issuance date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBIRC, 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 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) the China Banking and Insurance Regulatory Commission (the "CBIRC") 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 CBIRC for review and determination and shall fulfill the relevant information disclosure responsibilities 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.

35. Investment Revaluation Reserve

	30 June 2019	31 December 2018
Debt instruments measured at fair value through other comprehensive income	3,949	3,688
Fair value gain on equity instruments measured at fair value through other comprehensive income	2,373	1,857
Remeasurement of defined benefit liability	36	29
Equity-accounted investees share of other comprehensive income	129	(42)
Total	6,487	5,532

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

36. Profit Appropriations**(a) Dividends approved/declared by shareholders**

	Six months ended 30 June 2019	Year ended 31 December 2018
Dividends in 2018, approved and declared RMB0.94 per shares	23,707	–
Dividends in 2017, approved and paid RMB0.84 per shares	–	21,185

(b) Proposed profit appropriations

	Six months ended 30 June 2019	Year ended 31 December 2018
Statutory surplus reserve	–	7,523
Regulatory general reserve	–	7,621
Dividends		
– cash dividend: Nil (2018: RMB0.94 per shares)	–	23,707
Total	–	38,851

2018 dividends profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 22 March 2019 and approved by the 2018 annual general meeting held on 27 June 2019.

37. 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 2019	30 June 2018
Cash and balances with central bank	89,352	86,770
Balance with banks and other financial institutions	75,179	77,918
Placements with banks and other financial institutions	108,812	100,894
Amounts held under resale agreements	259,527	295,806
Debt securities investments	36,395	34,061
Total	569,265	595,449

(b) Significant non-cash transactions

There are no significant non-cash transactions during the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

38. 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. The segments information was reported as follows:

– 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 CMB 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 2019 and 2018. Internal transactions are conducted at fair value.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

38. Operating Segments *(continued)***(a) Segment results, assets and liabilities**

	Wholesale finance business		Retail finance business		Other business		Total	
	Six months ended 30 June							
	2019	2018	2019	2018	2019	2018	2019	2018
External net interest income	12,410	12,886	56,104	47,587	18,893	16,539	87,407	77,012
Internal net interest income/ (expense)	25,732	25,680	(6,916)	(9,108)	(18,816)	(16,572)	–	–
Net interest income	38,142	38,566	49,188	38,479	77	(33)	87,407	77,012
Net fee and commission income	10,861	11,622	25,531	23,991	2,579	1,856	38,971	37,469
Other net income	7,237	7,814	629	440	3,386	2,526	11,252	10,780
Operating income	56,240	58,002	75,348	62,910	6,042	4,349	137,630	125,261
Operating expenses								
– Property, equipment and investment properties depreciation	(751)	(715)	(1,164)	(1,101)	(1,009)	(687)	(2,924)	(2,503)
– Right-of-use assets depreciation and amortisation	(840)	N/A	(1,240)	N/A	(74)	N/A	(2,154)	N/A
– Others	(14,360)	(12,567)	(19,482)	(19,396)	(1,481)	(1,263)	(35,323)	(33,226)
Subtotal	(15,951)	(13,282)	(21,886)	(20,497)	(2,564)	(1,950)	(40,401)	(35,729)
Reportable segment profit before expected credit losses	40,289	44,720	53,462	42,413	3,478	2,399	97,229	89,532
Expected credit losses	(17,139)	(20,755)	(14,642)	(10,323)	(1,283)	(351)	(33,064)	(31,429)
Share of profit of associates and joint ventures	–	–	–	–	708	842	708	842
Reportable segment profit before tax	23,150	23,965	38,820	32,090	2,903	2,890	64,873	58,945
Capital expenditure (note)	1,277	1,769	1,885	2,723	4,367	3,155	7,529	7,647

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

38. Operating Segments *(continued)*

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

	Wholesale financial business		Retail financial business		Other business		Total	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2019	2018	2019	2018	2019	2018	2019	2018
Reportable segment assets	3,180,614	2,831,765	2,222,759	2,045,530	1,760,239	1,794,697	7,109,612	6,671,992
Reportable segment liabilities	3,725,287	3,526,129	1,726,756	1,598,208	1,059,347	1,007,225	6,511,390	6,131,562
Interest in associates and joint ventures	-	-	-	-	9,685	8,871	9,685	8,871

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

	Six months ended 30 June	
	2019	2018
Total operating income for reportable segments	137,630	125,261
Total profit or loss for reportable segments	64,873	58,945

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

38. Operating Segments *(continued)*

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

	30 June 2019	31 December 2018
Assets		
Total assets for reportable segments	7,109,612	6,671,992
Goodwill	9,954	9,954
Intangible assets	718	735
Deferred tax assets	64,603	58,374
Other unallocated assets	8,294	4,674
Consolidated total assets	7,193,181	6,745,729
Liabilities		
Total liabilities for reportable segments	6,511,390	6,131,562
Tax payable	19,852	20,411
Other unallocated liabilities	87,944	50,151
Consolidated total liabilities	6,619,186	6,202,124

(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 operation in Hong Kong, New York, Singapore, London, Sydney and Luxembourg, subsidiaries operating in Hong Kong and Shanghai and representative offices in Beijing, New York and Taipei.

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

38. Operating Segments *(continued)*

(c) Geographical segments *(continued)*

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

- "Headquarters" refers to the Group headquarters, special purpose vehicles at the branch level which are directly under the headquarters, 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 Coast region" 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, New York, Singapore, Luxembourg, London, Sydney and representative offices in New York, and Taipei; and
- "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including CMB WLB, CMBICHC, CMBFLC, CMFM, etc.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

38. Operating Segments *(continued)*

(c) Geographical segments *(continued)*

Geographical information	Total assets		Total liabilities		Non-current assets		Operating income		Profit before tax	
							Six months ended	Six months ended	Six months ended	Six months ended
	30 June 2019	31 December 2018	30 June 2019	31 December 2018	30 June 2019	31 December 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Headquarter	3,291,469	3,129,174	2,857,278	2,739,929	36,449	34,056	57,074	47,017	11,944	5,955
Yangtze River Delta region	863,780	777,607	853,384	759,258	5,984	2,948	17,458	17,692	13,497	14,138
Bohai Rim region	569,020	526,143	563,651	513,813	3,911	2,015	13,798	13,464	7,463	8,829
Pearl River Delta and West Coast region	757,278	693,830	746,988	679,961	4,159	2,137	16,398	16,348	11,848	12,056
Northeast region	149,283	144,367	147,403	146,060	1,945	1,125	3,235	3,304	2,487	(827)
Central region	437,255	389,081	434,116	380,025	4,215	2,524	8,634	8,415	4,560	6,135
Western region	410,056	380,152	405,789	371,913	4,294	2,389	8,792	8,693	5,629	7,032
Overseas	214,890	240,080	209,884	234,741	1,290	145	1,793	2,304	1,079	1,561
Subsidiaries	500,150	465,295	400,693	376,424	42,461	38,903	10,448	8,024	6,366	4,066
Total	7,193,181	6,745,729	6,619,186	6,202,124	104,708	86,242	137,630	125,261	64,873	58,945

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

39. 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 loan commitments and financial guarantees 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 2019			Total
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit- impaired)	– Stage 3 (Lifetime ECL-credit impaired)	
Contractual amount				
Irrevocable guarantees	219,442	1,767	273	221,482
Of which: Financial guarantees	125,232	1,658	3	126,893
Non-financial guarantees	94,210	109	270	94,589
Irrevocable letters of credit	77,762	498	51	78,311
Bills of acceptances	259,179	2,182	510	261,871
Irrevocable loan commitments	150,830	282	51	151,163
– with an original maturity within 1 year (inclusive)	71,589	109	47	71,745
– with an original maturity over 1 year	79,241	173	4	79,418
Credit card commitments	886,068	6,029	129	892,226
Others	69,915	–	–	69,915
Total	1,663,196	10,758	1,014	1,674,968

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

39. Contingent Liabilities and Commitments *(continued)***(a) Credit commitments** *(continued)*

	31 December 2018			Total
	– Stage 1 (12-month ECL)	– Stage 2 (Lifetime ECL – not credit- impaired)	– Stage 3 (Lifetime ECL-credit impaired)	
Contractual amount				
Irrevocable guarantees	234,373	370	357	235,100
Of which: Financial guarantees	142,937	288	3	143,228
Non-financial guarantees	91,436	82	354	91,872
Irrevocable letters of credit	66,198	1,038	6	67,242
Bills of acceptances	234,681	2,134	12	236,827
Irrevocable loan commitments	96,741	137	12	96,890
– with an original maturity within 1 year (inclusive)	42,790	54	12	42,856
– with an original maturity over 1 year	53,951	83	–	54,034
Credit card commitments	836,924	8,497	81	845,502
Others	74,918	5	–	74,923
Total	1,543,835	12,181	468	1,556,484

As at 30 June 2019, the Group's irrevocable letters of credit includes sight letters of credit of RMB9,243 million (31 December 2018: RMB8,679 million), usance letters of credit of RMB5,547 million (31 December 2018: RMB5,640 million), other commitments of RMB63,521 million (31 December 2018: RMB52,923 million).

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

39. Contingent Liabilities and Commitments *(continued)***(a) Credit commitments** *(continued)*

These loan commitments and financial guarantees have off-balance sheet credit risk. Before the commitments are fulfilled or expired, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

Apart from the irrevocable loan commitments, the Group had loan commitments of 2,424,015 million at 30 June 2019 (31 December 2018: RMB2,236,875 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 commitments. As a result, such balances are not included in the above loan commitments and financial guarantees.

	30 June 2019	31 December 2018
Credit risk weighted amounts of loan commitments and financial guarantees	457,756	373,397

The Group calculated the credit risk weighted amount of its loan commitments and financial guarantees in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Trial) issued by the CBIRC. The amount within the scope approved by the CBIRC in April 2014 is calculated using the internal ratings-based approach, and the Standardised Approaches are used to calculate those not eligible to the internal ratings-based approach.

(b) Capital commitments

Authorised capital commitments were as follows:

	30 June 2019	31 December 2018
Contracted for	2,056	1,885
Authorised but not contracted for	377	394
Total	2,433	2,279

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

39. Contingent Liabilities and Commitments *(continued)*

(c) Outstanding litigations

At 30 June 2019, the Group was a defendant in certain outstanding litigations with gross claims of RMB556 million (31 December 2018: RMB515 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 interim consolidated financial statements.

(d) 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 issued by 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 2019	31 December 2018
Redemption obligations	27,770	25,568

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

40. 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

40. Transactions on Behalf of Customers *(continued)*

(a) Entrusted lending business *(continued)*

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

	30 June 2019	31 December 2018
Entrusted loans	366,373	417,263
Entrusted funds	(366,373)	(417,263)

(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 2019	31 December 2018
Funds received from customers under wealth management services	1,945,774	1,851,964

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(a) Credit risk *(continued)*

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.

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-mentioned (grades 1-2), substandard, doubtful and loss).

The risks involved in loan commitments and financial guarantees 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.

(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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(a) Credit risk *(continued)*

(ii) *Significant increase in credit risk*

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 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 41(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 5-tier loan classification is special-mentioned; 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 etc.

For retail business, credit risk is considered as significantly increased if any of the following conditions are met: the 5-tier loan classification is special-mentioned; more than 30 days (inclusive) overdue; or the customer has other significant risk signals identified by the Group etc.

For credit card business, credit risk is considered as significantly increased if any of the following conditions are met: the 5-tier loan classification is special-mentioned; 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 etc.

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 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 a debt instrument has been credit impaired when its 5-tier loan classification is substandard, doubtful or loss or is more than 90 days overdue.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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): is the risk exposure on a debt instrument.

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

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

According to the different risk characteristics of assets, the Group divides assets into different asset portfolios and identifies macroeconomic indicators that affect the credit risks of these portfolios, such as GDP, fixed asset investment, total social consumption and so on. By performing statistical regression analysis, the Group obtains the correlations between the historical changes of macroeconomic indicators and PD of various portfolios.

The forecasts of macroeconomic indicators in the indicators pool are provided periodically by the Group. Based on macroeconomic statistical analyzes and expert judgements, the Group determines the values and the weightings of those macroeconomic indicators under mild, moderate and severe scenarios. The Group measures PD as a weighted average of PD under the three scenarios, with the combination of the dynamic LGD of different business, the Group calculates the forward-looking adjusted ECL.

During the reporting period, 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. The Group divides the wholesale business into different types according to the scale.

(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 contract amount of the off balance sheet items disclosed in Note 39(a). At 30 June 2019, the amount of the Group's maximum credit risk exposure is RMB11,104,531 million (31 December 2018: RMB10,371,303 million).

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

The carrying amount of loans and advances that were credit impaired and the terms been renegotiated was RMB24,727 million as at 30 June 2019 (31 December 2018: RMB22,766 million).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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 foreign exchange rate, interest 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 market. 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

According to the basic principles of risk management, the group has built and continuously improved the market risk management system, and established the management process of market risk identification, measurement, monitoring, control and reporting, covering the interest rate, exchange rate, commodity and other risks involved in the trading book business. Under the market risk preference formulated by the board of directors, the group manage the trading book, clearly identifies, accurately measure and effectively manage the trading book market risk, to ensure that the trading book risk exposure is within an acceptable range and achieve a reasonable balance of risk and return. The group constantly improve the risk-adjusted return level to achieve the maximum shareholder value.

The trading book market risk governance organization structure defines the responsibilities, division of labor and reporting routes of the board of directors, the board of directors risk and capital management committee, senior management and relevant departments of the bank, to achieve management objectives. The market risk management department is the group's trading book market risk department, which is responsible for risk policy formulation and management.

According to the business and market risk management organization structure, the group establishes the trading book market risk quota management system. Formulated by the board of directors, the quantitative index is the limitation of highest level risk, which is transmitted from top to bottom and level by level. Within the scope of their authorization, management departments at all levels allocate and set quotas according to risk characteristics, product types and trading strategies, etc. The business department shall carry out the business according to the authorization and quota requirements, and the supervisory and administrative departments at all levels shall continuously monitor and report according to the quota management regulations.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(b) Market risk *(continued)*

(i) Interest rate risk *(continued)*

(1) Trading book *(continued)*

The trading book market risk management adopts the scale index, loss limit index, sensitivity index, risk value index, pressure test index and other risk measurement indexes as the quota index, and sets the limit value by comprehensively considering the risk preference, risk tolerance, business operation strategy, risk return, management conditions and other factors, considering such factors as risk preference, risk tolerance, business operation strategy, risk return and management conditions and other factors.

The group uses valuation, sensitivity analysis, value-at-risk analysis, pressure test and other measurement methods to identify and quantify risk factors in the interest rate market. The group applies the market risk measurement model in daily risk management and takes market risk measurement as the basis of business planning, resource allocation, financial market business operation and risk management.

(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 the six months ended 30 June 2019 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)***(b) Market risk** *(continued)***(i) Interest rate risk** *(continued)*

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.

The following table indicates the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period.

	30 June 2019					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central bank	549,943	535,436	-	-	-	14,507
Amounts due from banks and other financial institutions	555,484	465,224	79,983	2,329	635	7,313
Loans and advances to customers (note (i))	4,113,918	1,544,067	2,290,094	220,692	59,065	-
Investments (including derivatives)	1,716,591	262,618	305,924	716,886	390,104	41,059
Other assets (note (ii))	257,245	-	104	-	-	257,141
Total assets	7,193,181	2,807,345	2,676,105	939,907	449,804	320,020
Liabilities						
Amounts due to banks and other financial institutions	1,146,419	852,504	274,246	11,550	4,614	3,505
Deposits from customers	4,699,738	3,501,552	654,319	532,268	979	10,620
Financial liabilities at fair value through profit or loss (including derivatives)	73,763	1,495	1,156	9,684	71	61,357
Lease liabilities	13,229	954	2,573	7,966	1,736	-
Debt securities issued	498,519	94,631	286,885	82,577	34,426	-
Other liabilities (note (ii))	187,518	-	-	-	-	187,518
Total liabilities	6,619,186	4,451,136	1,219,179	644,045	41,826	263,000
Asset-liability gap	573,995	(1,643,791)	1,456,926	295,862	407,978	57,020

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

		31 December 2018				
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central bank	493,135	477,321	–	–	–	15,814
Amounts due from banks and other financial institutions	611,186	518,613	84,679	268	1,214	6,412
Loans and advances to customers (note (i))	3,741,262	1,665,384	1,846,122	170,453	59,303	–
Investments (including derivatives)	1,683,541	439,396	173,454	665,013	360,022	45,656
Other assets (note (iii))	216,605	–	–	–	–	216,605
Total assets	6,745,729	3,100,714	2,104,255	835,734	420,539	284,487
Liabilities						
Amounts due to banks and other financial institutions	1,150,156	802,236	327,266	10,792	4,683	5,179
Deposits from customers	4,400,674	3,424,830	545,087	417,315	2,597	10,845
Financial liabilities at fair value through profit or loss (including derivatives)	80,491	206	2,667	9,511	213	67,894
Debt securities issued	422,327	77,883	197,850	101,780	44,814	–
Other liabilities (note (ii))	148,476	19	–	–	–	148,457
Total liabilities	6,202,124	4,305,174	1,072,870	539,398	52,307	232,375
Asset-liability gap	543,605	(1,204,460)	1,031,385	296,336	368,232	52,112

- Notes: (i) For loans and advances to customers, the “3 months or less” category includes overdue amounts as at 30 June 2019 and 31 December 2018, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interests were overdue.
- (ii) Interest receivable and interest payable of financial instruments are included in “other assets” and “other liabilities” respectively.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)***(b) Market risk** *(continued)***(i) Interest rate risk** *(continued)*

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on the assets and liabilities as at 30 June 2019 and 31 December 2018.

	30 June 2019		31 December 2018	
	Change in interest rates (in basis points)		Change in interest rates (in basis points)	
	25	(25)	25	(25)
(Decrease)/increase in annualised net interest income	(2,450)	2,450	(1,890)	1,890
(Decrease)/increase in equity	(4,175)	4,195	(3,488)	3,701

Actual changes in the Group's net interest income and equity resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

(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, the board of supervisors, 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(b) Market risk *(continued)*

(ii) Foreign exchange risk *(continued)*

(1) Trading book

The group has established a trading book market risk system, which includes exchange rate risk. The quota, using the risk measurement as the index, manages the exchange rate risk of the trading book. The structure, process and method of exchange rate risk of trading book are consistent with the interest rate risk of trading book.

(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 audit department is responsible for auditing. The treasurer is responsible to manage the foreign exchange risk under the banking book with a prudent approach and compliance with the regulatory requirements, and manage 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 continued to strengthen bank account exchange rate risk monitoring and authorization management of quota limit to ensure that risks are controlled within a reasonable range.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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) shall be 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 Director. Assets and Liabilities Committee (ALCO) shall, 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 shall be 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 shall perform 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, subsidiaries acting in concert. The Asset and Liability Management Department acting 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 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(c) Liquidity risk *(continued)*

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

	30 June 2019								
	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	Indefinite	Overdue	Total
Cash and balances with central bank (note (i))	89,361	-	-	-	-	-	460,582	-	549,943
Amounts due from banks and other financial institutions	82,631	346,054	43,525	80,602	2,672	-	-	-	555,484
Loans and advances to customers	-	453,858	339,459	1,148,358	1,101,714	1,047,974	-	22,555	4,113,918
Investments (note (ii))									
– Financial assets at fair value through profit or loss (including derivatives)	6,234	65,349	31,514	171,211	73,244	18,710	2,210	402	368,874
– Debt investments at amortised cost	-	16,815	30,749	105,600	474,635	283,973	-	800	912,572
– Debt investments at fair value through other comprehensive income	-	24,703	12,249	57,130	246,607	88,345	-	348	429,382
– Equity investments designated at fair value through other comprehensive income	-	-	-	-	-	-	5,763	-	5,763
Other assets (note (iv))	41,969	6,646	8,816	15,410	14,301	6,130	163,973	-	257,245
Total assets	220,195	913,425	466,312	1,578,311	1,913,173	1,445,132	632,528	24,105	7,193,181
Amounts due to banks and other financial institutions	400,950	240,815	194,990	278,150	26,180	5,334	-	-	1,146,419
Deposits from customers (note (iii))	2,774,887	383,467	348,957	657,097	534,349	981	-	-	4,699,738
Financial liabilities at fair value through profit or loss (including derivatives)	13,131	16,584	7,490	14,225	22,150	183	-	-	73,763
Lease liabilities	-	420	534	2,573	7,966	1,736	-	-	13,229
Debt securities issued	-	30,339	64,293	286,884	82,577	34,426	-	-	498,519
Other liabilities (note (iv))	87,158	57,549	10,198	18,473	9,826	1,306	3,008	-	187,518
Total liabilities	3,276,126	729,174	626,462	1,257,402	683,048	43,966	3,008	-	6,619,186
(Short)/long position	(3,055,931)	184,251	(160,150)	320,909	1,230,125	1,401,166	629,520	24,105	573,995

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management (continued)

(c) Liquidity risk (continued)

	31 December 2018								Total
	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	Indefinite	Overdue	
Cash and balances with central bank (note (i))	31,621	–	–	–	–	–	461,514	–	493,135
Amounts due from banks and other financial institutions	81,344	410,287	31,664	85,447	1,230	–	1,214	–	611,186
Loans and advances to customers	–	414,154	275,758	1,097,315	964,517	970,623	–	18,895	3,741,262
Investments (note (ii))									
– Financial assets at fair value through profit or loss (including derivatives)	3,045	191,652	62,960	33,898	42,361	25,549	1,827	275	361,567
– Debt investments at amortised cost	–	9,809	75,329	106,912	467,555	240,250	–	3,413	903,268
– Debt investments at fair value through other comprehensive income	434	21,042	16,391	74,532	204,145	97,770	–	377	414,691
– Equity investments designated at fair value through other comprehensive income	–	–	–	–	–	–	4,015	–	4,015
Other assets (note (iv))	23,800	6,524	7,010	11,418	3,053	200	164,600	–	216,605
Total assets	140,244	1,053,468	469,112	1,409,522	1,682,861	1,334,392	633,170	22,960	6,745,729
Amounts due to banks and other financial institutions	328,999	269,494	184,328	334,596	25,383	5,744	1,612	–	1,150,156
Deposits from customers (note (iii))	2,705,487	392,496	333,848	547,380	418,866	2,597	–	–	4,400,674
Financial liabilities at fair value through profit or loss (including derivatives)	14,564	13,725	8,400	21,810	21,760	232	–	–	80,491
Debt securities issued	–	13,343	68,339	194,051	101,780	44,814	–	–	422,327
Other liabilities (note (iv))	65,131	45,029	9,438	19,273	5,517	766	3,322	–	148,476
Total liabilities	3,114,181	734,087	604,353	1,117,110	573,306	54,153	4,934	–	6,202,124
(Short)/long position	(2,973,937)	319,381	(135,241)	292,412	1,109,555	1,280,239	628,236	22,960	543,605

Notes:

- (i) For balances with central bank, the amount with an indefinite maturity represents statutory deposit reserve and fiscal balances maintained with the PBOC.
- (ii) The remaining maturities of financial assets at fair value through profit or loss 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 include matured time deposits which are pending for customers' instructions.
- (iv) Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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;
- 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(e) Capital management *(continued)*

The Group manages its capital structure and adjusts 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, additional 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 CBIRC. The Group and the Bank file required information to CBIRC 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 2019, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: CMB WLB, CMBICHC, CMBFLC and CMFM, etc.

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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.

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 trading derivative financial instruments, cash flow hedge financial instruments and derivative financial instruments managed in conjunction with financial instruments designated at fair value through profit or loss.

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 remaining maturity at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume that has not been delivered at the end of the reporting period, not representing amounts at risk.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management (continued)

(f) Use of derivatives (continued)

	30 June 2019						
	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	665,865	1,742,113	2,112,214	4,340	4,524,532	13,974	(13,648)
Currency derivatives							
Forwards	56,116	26,888	272	18,099	101,375	758	(639)
Foreign exchange swaps	489,934	433,244	17,214	–	940,392	10,354	(8,665)
Options	187,923	272,661	5,417	–	466,001	1,787	(7,194)
Subtotal	733,973	732,793	22,903	18,099	1,507,768	12,899	(16,498)
Other derivatives							
Equity options purchased	934	201	55,939	–	57,074	364	–
Equity options written	934	201	55,939	–	57,074	–	(364)
Commodity trading swap	2,195	409	101	–	2,705	136	(130)
Credit default swap	40	807	137	–	984	5	–
Bond forwards	184	1,392	–	–	1,576	108	(108)
Subtotal	4,287	3,010	112,116	–	119,413	613	(602)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	53	3,462	4,132	274	7,921	15	–
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	330	1,402	3,393	–	5,125	17	(65)
Currency derivatives							
Foreign exchange swaps	964	347	1,227	–	2,538	15	(1)
Subtotal	1,294	1,749	4,620	–	7,663	32	(66)
Total						27,533	(30,814)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(f) Use of derivatives *(continued)*

31 December 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	636,827	1,804,827	1,922,312	3,323	4,367,289	15,929	(14,748)
Currency derivatives							
Forwards	55,071	28,237	148	11,172	94,628	1,104	(867)
Foreign exchange swaps	450,164	604,153	9,767	–	1,064,084	13,748	(12,551)
Options	185,109	253,869	5,377	–	444,355	2,766	(7,903)
Subtotal	690,344	886,259	15,292	11,172	1,603,067	17,618	(21,321)
Other derivatives							
Equity options purchased	1,160	–	55,926	–	57,086	169	–
Equity options written	1,160	–	55,926	–	57,086	–	(169)
Commodity trading swap	121	171	11	–	303	69	(69)
Credit default swap	–	570	137	–	707	4	(1)
Bond forwards	481	618	343	–	1,442	198	(198)
Subtotal	2,922	1,359	112,343	–	116,624	440	(437)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	52	2,103	6,864	339	9,358	118	(2)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	624	735	4,707	–	6,066	103	(62)
Currency derivatives							
Foreign exchange swaps	–	2,164	618	–	2,782	12	–
Subtotal	624	2,899	5,325	–	8,848	115	(62)
Total						34,220	(36,570)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)***(f) Use of derivatives** *(continued)*

There was no ineffective portion of cash flow hedge during the six months ended 30 June 2019 and the year ended 31 December 2018.

The credit risk weighted amounts in respect of these derivatives are as follows:

	30 June 2019	31 December 2018
Credit risk weighted assets of counterparties		
Interest rate derivatives	219	272
Currency derivatives	6,633	7,728
Other derivatives	4,283	4,236
Credit valuation adjustment risk weighted assets	10,002	17,606
Total	21,137	29,842

Note: Since 2019, the Group has calculated the exposure of derivatives according to the Notice of The Measures on Default Risk Weighted Assets of Counterparties In Respect Of Derivatives and the supporting rules issued by the CBIRC. These amounts have taken the effects of bilateral netting arrangements into account. The risk weighted amounts in respect of derivatives are calculated in accordance with the Administrative Measures on Capital of Commercial Banks (Trial) issued by CBIRC. The amount within the scope approved by CBIRC in April 2014 was calculated using the internal rating-based approach, and the Standardised Approaches are 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.

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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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 each balance sheet date 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 between levels of the fair value hierarchy 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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**

The table below analyses financial instruments without interests, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy:

	30 June 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	14,752	103,300	327	118,379
– Long position in precious metal contracts	130	–	–	130
– Equity investments	1,027	13	1,170	2,210
– Investments in funds	2,920	37,904	558	41,382
– Wealth management products	–	–	1,037	1,037
– Non-standard assets-Bills	–	170,046	–	170,046
Subtotal	18,829	311,263	3,092	333,184
Investments designated at FVTPL				
– Debt securities	4,991	3,363	22	8,376
Derivative financial assets	–	27,533	–	27,533
Loans and advances to customers at FVTPL	–	–	418	418
Debt investments at FVTOCI	91,929	337,453	–	429,382
Loans and advances to customers at FVTOCI	–	257,968	29,659	287,627
Equity investments designated at FVTOCI	2,119	–	3,644	5,763
Total	117,868	937,580	36,835	1,092,283

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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 2019			
	Level 1	Level 2	Level 3	Total
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	14,646	–	–	14,646
– Short selling securities	1,806	–	–	1,806
Subtotal	16,452	–	–	16,452
Financial liabilities designated at FVTPL				
– Precious metal contracts with other banks	10,696	–	–	10,696
– Certificates of deposit issued	–	2,260	–	2,260
– Debt securities issued	10,076	–	–	10,076
– Others	–	1,009	2,581	3,590
Subtotal	20,772	3,269	2,581	26,622
Derivative financial liabilities	–	30,814	–	30,814
Total	37,224	34,083	2,581	73,888

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	10,237	108,682	746	119,665
– Long position in precious metal contracts	111	–	–	111
– Equity investments	125	58	1,378	1,561
– Investments in funds	2,004	15,661	406	18,071
– Wealth management products	–	–	1,060	1,060
– Non-standard assets-Bills	–	173,988	–	173,988
– Others	–	–	3	3
Subtotal	12,477	298,389	3,593	314,459
Investments designated at FVTPL				
– Debt securities	4,940	8,203	41	13,184
Derivative financial assets	–	34,220	–	34,220
Loans and advances to customers at FVTPL	–	–	403	403
Debt investments at FVTOCI	78,551	336,140	–	414,691
Loans and advances to customers at FVTOCI	–	156,683	20,684	177,367
Equity investments designated at FVTOCI	1,475	–	2,540	4,015
Total	97,443	833,635	27,261	958,339

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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 2018			
	Level 1	Level 2	Level 3	Total
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	17,872	–	–	17,872
– Short selling securities	1,090	–	–	1,090
Subtotal	18,962	–	–	18,962
Financial liabilities designated at FVTPL				
– Precious metal contracts with other banks	9,663	–	–	9,663
– Certificates of deposit issued	–	2,619	–	2,619
– Debt securities issued	9,977	–	–	9,977
– Others	–	365	2,514	2,879
Subtotal	19,640	2,984	2,514	25,138
Derivative financial liabilities	–	36,570	–	36,570
Total	38,602	39,554	2,514	80,670

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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 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 currency denominated swap yield curve as at the end of reporting period.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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 in market is used as the basis of determining the market price for recurring fair value.

The fair value of loans and advances to customers at FVTOCI in Mainland China is measured based on discount interest-rate of bill business of rediscounted bills announced by Shanghai Commercial Bill Exchange; the Group uses 10-day average of discount interest-rate of bill business 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 discount interest-rate of bill business announced by Shanghai Commercial Bill Exchange; the Group uses 10-day average of discount interest-rate of bill business as the basis for calculating the value of discounted bills.

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(g) Fair value information *(continued)*

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

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 Quantitative information of Level 3 fair value measurement is as below:

	Fair value as at 30 June 2019	Valuation techniques	Unobservable input
Equity investments designated at FVTOCI	802	Market approach	Liquidity discount
Equity investments designated at FVTOCI	2,842	Net asset value approach	Net assets
Loans and advances to customers at FVTPL	418	Discounted cash flow approach	Risk-adjusted discount rate, actual trading conditions-adjusted discount rate, cash flow
Loans and advances to customers at FVTOCI	29,659	Discounted cash flow approach	Risk-adjusted discount rate, actual trading conditions-adjusted discount rate, cash flow
Investments measured at FVTPL			
– Debt securities	327	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	1,160	Market approach	Liquidity discount
– Equity investments	10	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Investments in funds	550	Market approach	Liquidity discount
– Investments in funds	8	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Wealth management products	1,037	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Investments designated at FVTPL	22	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Financial liabilities designated at FVTPL	2,581	Net fund value approach	Net assets

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(g) Fair value information *(continued)*

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

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

	Fair value as at 31 December 2018	Valuation techniques	Unobservable input
Equity investments designated at FVTOCI	1,031	Market approach	Liquidity discount
Equity investments designated at FVTOCI	1,509	Net asset value approach	Net assets
Loans and advances to customers at FVTPL	403	Discounted cash flow approach	Risk-adjusted discount rate, actual trading conditions-adjusted discount rate, cash flow
Loans and advances to customers at FVTOCI	20,684	Discounted cash flow approach	Risk-adjusted discount rate, actual trading conditions-adjusted discount rate, cash flow
Investments measured at FVTPL			
– Debt securities	746	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	1,373	Market approach	Liquidity discount
– Equity investments	5	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Investments in funds	307	Market approach	Liquidity discount
– Investments in funds	99	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Wealth management products	1,060	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Others	3	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Investments designated at FVTPL	41	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Financial liabilities designated at FVTPL	2,514	Net fund value approach	Net assets

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)***(g) Fair value information** *(continued)***(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis** *(continued)***(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3**
Quantitative information of Level 3 fair value measurement is as below: *(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:

Assets	Financial assets at fair value through profit or loss	Loans and advances to customers at FVTPL	Loans and advances to customers at FVTOCI	Equity investments designated at FVTOCI	Total
At 1 January 2019	3,634	403	20,684	2,540	27,261
Profit or loss					
– In profit or loss	(435)	13	–	–	(422)
– In other comprehensive income	–	–	8	958	966
Purchases	773	–	23,380	–	24,153
Transfer out Level 3	(239)	–	–	–	(239)
Disposals or settlement on maturity	(545)	–	(14,413)	–	(14,958)
Exchange difference	(74)	2	–	146	74
At 30 June 2019	3,114	418	29,659	3,644	36,835
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	(424)	13	–	–	(411)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(g) Fair value information *(continued)*

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

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

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

Assets	Financial assets at fair value through profit or loss	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
At 31 December 2017	–	–	–	–	2,166	2,166
Adjustments under IFRS 9	2,171	–	14,909	2,380	(2,166)	17,294
At 1 January 2018	2,171	–	14,909	2,380	–	19,460
Profit or loss						
– In profit or loss	376	5	–	–	N/A	381
– In other comprehensive income	–	–	26	86	N/A	112
Purchases	3,457	388	31,732	101	N/A	35,678
Transfer to Level 3	279	–	–	–	N/A	279
Disposals or settlement on maturity	(2,349)	–	(25,983)	–	N/A	(28,332)
Exchange difference	(300)	10	–	(27)	N/A	(317)
At 31 December 2018	3,634	403	20,684	2,540	N/A	27,261
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	376	5	–	–	N/A	381

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)***(g) Fair value information** *(continued)***(ii) Assets and liabilities which are measured at fair value at date of financial position on a recurring basis** *(continued)***(3) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3**
Quantitative information of Level 3 fair value measurement is as below: *(continued)*1) Valuation of financial instruments with significant unobservable inputs *(continued)*

Liabilities	Financial liabilities at fair value through profit or loss
At 1 January 2019	2,514
In profit or loss	59
Issues	—
Disposals and settlement on maturity	—
Exchange difference	8
At 30 June 2019	2,581
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	59

Liabilities	Financial liabilities at fair value through profit or loss
At 1 January 2018	—
In profit or loss	251
Issues	2,263
At 31 December 2018	2,514
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	251

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. Risk Management *(continued)*

(g) Fair value information *(continued)*

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

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

- 2) The continuous fair value measurement project, the transfers between the various levels occurred during the period, the reason for the transfers and the policy to determine the time of transfers

During the six months ended 30 June 2019, there were no significant transfers between different levels for financial instruments which are measured at fair value on an on-going basis.

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

During the six months ended 30 June 2019, the Group has not changed the valuation technique of the above financial assets and liabilities 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 measured at amortised cost and debt instrument investments measured at amortised cost, most of the financial assets will mature within 1 year, and their carrying values approximate their fair values. Loans and advances are stated at amortised costs less allowances for impairment loss (Note 16). Loans and advances 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 is close to the fair value.

Debt instrument investments measured at amortised cost are carried at amortised cost less impairment losses. The fair value of the listed investments is disclosed in Note 17(b).

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

41. 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 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 2019					31 December 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Debt investments at amortised cost	912,572	922,941	21,997	724,568	176,376	903,268	925,363	4,777	663,110	257,476

(2) Financial liabilities

Financial liabilities mainly include deposits from customers, amounts due to banks and other financial institutions, sold under repurchase agreements, 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 2019					31 December 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated notes issued	34,425	35,389	-	35,389	-	45,714	46,191	-	46,191	-
Long-term debt securities issued	111,165	112,320	-	112,320	-	104,483	104,712	-	104,712	-
Total	145,590	147,709	-	147,709	-	150,197	150,903	-	150,903	-

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

42. Material Related Party Transactions (a) Material connected person information

The Bank's major shareholders and their parent companies

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	Business	The relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB16,700 million	7,559,427,375	29.97% (note (i)(viii))	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	RMB7,000 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	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	Xu Xin
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	Xu Xin
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 (BVU) 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 Xiaodong

Notes to the Unaudited Interim Financial Report
For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

42. Material Related Party Transactions (continued)

(a) Material connected person information (continued)

The Bank's major shareholders and their parent companies (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	Business	The relationship with the Bank	Legal form	Legal representative
Anbang Insurance Group Co., Ltd.	Beijing	RMB61,900 million	2,934,094,716	11.63% (note(iii))	Investing and establishing insurance companies, supervising and managing various domestic and international businesses of holding investment enterprises, and investment business permitted by national laws and regulations, etc.	Shareholder's parent company	Joint stock limited company	He Xiaofeng
Anbang Property & Casualty Insurance Co., Ltd.	Shenzhen	RMB37,000 million	416,196,445	1.65%	Property damage insurance, liability insurance, credit insurance and guarantee insurance, short-term health insurance and accident insurance, etc.	Shareholder	Joint stock limited company	He Xiaofeng
Anbang Life Insurance Co., Ltd.	Beijing	RMB30,790 million	1,258,949,100	4.99%	Life insurance, health insurance, accident insurance, and other personal insurance services, etc.	Shareholder	Joint stock limited company	He Xiaofeng
Hexie Health Insurance Co., Ltd.	Chengdu	RMB13,900 million	1,258,949,171	4.99%	Various RMB and foreign currency health insurance business, accidental injury insurance business, health insurance business supported by the national medical insurance policy and entrusted by the government, etc.	Shareholder	Joint stock limited company	Gu Hongmei
China COSCO Shipping Corporation Limited.	Beijing	RMB11,000 million	2,515,193,034	9.97% (note(vi))	International shipping business, supporting services to international shipping, imports and exports 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, leasing business, ship purchasing and marketing business, warehousing business, etc.	Shareholder	Limited company	Xu Lirong
China COSCO Shipping (Guangzhou) Co., Ltd.	Guangzhou	RMB3,191 million	696,450,214	2.76%	Shipping business	Shareholder	Limited company	Shou Jian

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

42. Material Related Party Transactions (continued) (a) Material connected person information (continued)

The Bank's major shareholders and their parent companies (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	Business	The relationship with the Bank	Legal form	Legal representative
Guangzhou Haining Maritime Technology Service Co., Ltd.	Guangzhou	RMB2 million	103,552,616	0.41%	Business services	Shareholder	Limited company	Huang Bao
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
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	Wang Daxiong
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	Ren Zhaoping
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%	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	310,125,822	1.23%(note(vii))	Production and sale of vehicles, asset management business, domestic trade business, consulting service	Shareholder's parent company	Limited company	Chen Hong
SAIC Motor Corporation Limited	Shanghai	RMB11,683 million	310,125,822	1.23%	Production and sale of vehicles, consulting service, imports and exports	Shareholder	Joint stock limited company	Chen Hong
Hebei Port Group Co., Ltd.	Qin Huangdao	RMB8,000 million	305,434,127	1.21%(note(viii))	Port construction and investment management, port leasing and maintenance business, handling and warehousing business etc.	Shareholder	Limited company	Cao ziyu

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

42. Material Related Party Transactions *(continued)***(a) Material connected person information** *(continued)*

Notes:

- (i) CMG holds 29.97% of the Bank (31 December 2018: 29.97%) through its subsidiaries.
- (ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, holds 13.04% of the Bank as at 30 June 2019 (31 December 2018: 13.04%).
- (iii) Anbang Insurance Group Company Ltd. ("AIGC") holds 11.63% of the Bank (31 December 2018: 11.63%) through its subsidiaries.
- (iv) China COSCO Shipping Corporation Ltd. holds 9.97% of the Bank (31 December 2018: 9.97%) through its subsidiaries.
- (v) China Communications Construction Group LTD ("China Communications Construction Group") holds 2.27% of the Bank through its subsidiaries (31 December 2018: 2.27%).
- (vi) Shanghai Automotive Industry Corporation (Group) ("Shanghai Automotive Industry Group") holds 1.23% of the Bank through its subsidiary (SAIC Motor Corporation Limited) (31 December 2018: 1.23%).
- (vii) Hebei Port Group Company Ltd. directly holds 1.21% of the Bank (31 December 2018: 1.21%).
- (viii) The sum of the direct ratio of CMG's shareholdings in the Bank and the above-mentioned relevant numbers may differ slightly in the mantissa due to rounding.

The information of registered capital of the related parties as at 30 June 2019 and 31 December 2018 is as below:

Name of related party		30 June 2019	31 December 2018
CMG	RMB	16,700,000,000	RMB 16,700,000,000
CMSNCL	RMB	7,000,000,000	RMB 7,000,000,000
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 Co., 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
Hexie Health Insurance Co., Ltd.	RMB	13,900,000,000	RMB 13,900,000,000
Anbang Life Insurance Co., Ltd.	RMB	30,790,000,000	RMB 30,790,000,000
China COSCO Shipping Corporation Limited.	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
Guangzhou Haining Maritime Technology Service Co., Ltd.	RMB	2,000,000	RMB 2,000,000
China COSCO Shipping (Shanghai) Co., Ltd.	RMB	1,398,941,000	RMB 1,398,941,000
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
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 Corporation Limited	RMB	11,683,461,365	RMB 11,683,461,365
Hebei Port Group Co., Ltd.	RMB	8,000,000,000	RMB 8,000,000,000
CMBICHC	HKD	4,129,000,000	HKD 4,129,000,000
CMBFLC	RMB	6,000,000,000	RMB 6,000,000,000
CMB WLB	HKD	1,160,950,575	HKD 1,160,950,575
CMFM	RMB	1,310,000,000	RMB 1,310,000,000

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

42. 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 the 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 2019	31 December 2018
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%

The amount of loss provision for loans and advances to related is not significant 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 2018: 29.97%) of the Bank's shares as at 30 June 2019 (among them 13.04% of the shares are held by CMSNCL (31 December 2018: 13.04%)).

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

	30 June 2019	31 December 2018
<i>On-balance sheet:</i>		
– Loans and advances to customers	20,117	12,151
– Investments	4,049	4,526
– Deposits from customers	79,558	59,156
– Lease liabilities	64	N/A
<i>Off-balance sheet:</i>		
– Irrevocable guarantees	2,604	1,868
– Irrevocable letters of credit	590	434
– Bills of acceptances	438	146
– Unused factoring limits	165	161

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

42. Material Related-Party Transactions *(continued)*

(c) Shareholders and their related companies *(continued)*

	Six months ended 30 June	
	2019	2018
Interest income	461	360
Interest expense	543	390
Net fee and commission income	308	260
Operating expenses	21	19
Other net income	(1)	–

(d) Companies appointed common directors, senior management and/or supervisors of the Bank other than those under Note 42 (c) above

	30 June 2019	31 December 2018
<i>On-balance sheet:</i>		
– Loans and advances to customers	5,356	4,651
– Investments	1,240	940
– Deposits from customers	28,789	18,934
<i>Off-balance sheet:</i>		
– Irrevocable guarantees	167	252
– Irrevocable letters of credit	–	2
– Bills of acceptances	94	103

	Six months ended 30 June	
	2019	2018
Interest income	117	86
Interest expense	197	120
Net fee and commission income	370	264
Operating expenses	636	602
Other net income	7	23

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

42. Material Related-Party Transactions *(continued)*

(e) Associates and joint ventures other than those under Note 42(c) above

	30 June 2019	31 December 2018
<i>On-balance sheet:</i>		
– Loans and advances to customers	3,356	2,748
– Placements with banks and other financial institutions	10,400	9,500
– Deposits from customers	640	1,696
<i>Off-balance sheet:</i>		
– Irrevocable guarantees	8,700	8,701
	Six months ended 30 June	
	2019	2018
Interest income	78	383
Interest expense	9	9
Net Fee and commission income	569	744
Operating expenses	3	–

(f) Other major shareholders holding more than 5% shares of the Bank or with significant influence on the Bank

	30 June 2019	31 December 2018
<i>On-balance sheet:</i>		
– Loans and advances to customers	45,608	31,144
– Investments	3,767	3,543
– Deposits from customers	51,475	40,936
– Lease liabilities	12	N/A
<i>Off-balance sheet:</i>		
– Irrevocable guarantees	38,130	20,909
– Irrevocable letters of credit	333	125
– Bills of acceptances	5,493	2,313
– Unused factoring limits	1,897	1,639

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

42. Material Related-Party Transactions *(continued)***(f) Other major shareholders holding more than 5% shares of the Bank or with significant influence on the Bank** *(continued)*

	Six months ended 30 June	
	2019	2018
Interest income	837	131
Interest expense	669	737
Net fee and commission income	1,302	826
Operating expenses	1	–
Other net income	2	49

43. 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.

(a) Perpetual debt capital

The perpetual debt capital is issued by the bank's subsidiary, CMB WLB, on 27 April 2017 with the aggregate nominal amount of USD170 million and on 24 January 2019 with the aggregate nominal amount of USD400 million, as follows:

	Principal	Distributions/ Paid	Total
At 1 January 2019	1,158	–	1,158
Issuance of perpetual capital instruments	2,761	–	2,761
Distributions in the period	–	32	32
Paid in the period	–	(32)	(32)
Exchange difference	5	–	5
At 30 June 2019	3,924	–	3,924

There is no maturity of the instruments and the payments of distribution can be cancelled at the discretion of the issuer. Cancelled interest is not cumulative. There is no contractual obligation to deliver cash to other parties. During the 6 months ended 30 June 2019, CMB WLB announced and distributed permanent debt capital interest in accordance with the terms of the contract.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

44. 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.

Securitisation of credit assets

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. During the six months ended 30 June 2019, the Group has transferred the loans amounted to RMB22,900 million (for the six months ended 30 June 2018: RMB1,523 million), as well as substantially all the risks and rewards of the loans, the full amount of such securitised loans were derecognised.

The Group retains interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial positions to the extent of the Group's continuing involvement. During the six months ended 30 June 2019, loans with carrying amount of RMB10,402 million (for the six months ended 30 June 2018: nil) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 30 June 2019, the carrying amount of assets that the Group continued to recognise was RMB987 million (as at 31 December 2018: nil). The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

With respect to the securitisation of finance leases receivables that do not qualify for derecognition, the relevant assets are not derecognised, and the consideration paid by the third parties are recorded as a financial liability. As at 30 June 2019, the carrying amount of such transferred but not derecognised finance leases receivable amounted to RMB877 million (31 December 2018: RMB1,415 million) and correspondently the carrying amount of recognised financial liabilities is RMB83 million (31 December 2018: RMB706 million).

Transactions of credit assets

During the six months ended 30 June 2019, the Group has transferred credit assets (securitisation transactions are not included) amounted to RMB183 million (for the six months ended 30 June 2018: RMB78,000 million) to third party institutions directly; none of these transferred credit assets is transferred to structured entities (for the six months ended 30 June 2018: RMB77,607 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 the counterparties to pay additional cash collateral, or be required to return part of the 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

45. 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 2019 and 31 December 2018 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 2019 and 31 December 2018 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2019				
	Carrying amount				Maximum exposure
	Financial assets at fair value through profit or loss	Debt investments at amortised cost	Debt investments at FVTOCI	Total	
Asset management schemes	133,496	109,155	–	242,651	242,651
Trust beneficiary rights	–	52,477	–	52,477	52,477
Asset backed securities	2,986	2,359	1,849	7,194	7,194
Investment in funds	41,382	–	–	41,382	41,382
Total	177,864	163,991	1,849	343,704	343,704

	31 December 2018				
	Carrying amount				Maximum exposure
	Financial assets at fair value through profit or loss	Debt investments at amortised cost	Debt investments at FVTOCI	Total	
Asset management schemes	96,204	151,481	–	247,685	247,685
Trust beneficiary rights	–	82,457	–	82,457	82,457
Asset backed securities	1,469	855	1,214	3,538	3,538
Investment in funds	18,071	–	–	18,071	18,071
Total	115,744	234,793	1,214	351,751	351,751

The maximum exposures held by the Group in the subordinated tranches of assets backed securities, investments in funds, the wealth management products, asset management schemes, trust beneficiary rights, senior tranches of assets backed securities are the carrying amount of the assets held by the Group at the reporting date in accordance with the line items of these assets recognised in the statement of financial positions.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

45. Interests in Unconsolidated Structured Entities *(continued)*

(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 assets management schemes. 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 2019, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB2,109,849 million (31 December 2018: RMB2,052,183 million).

As at 30 June 2019, the amount of the unconsolidated mutual funds, which are sponsored by the Group, is RMB385,211 million (31 December 2018: RMB382,772 million).

As at 30 June 2019, the amount of the unconsolidated asset management schemes, which are sponsored by the Group, is RMB179,127 million (31 December 2018: RMB271,239 million).

As at 30 June 2019, 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 RMB110,774 million (31 December 2018: RMB87,903 million) and RMB14,342 million (31 December 2018: RMB60,591 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During the six months ended 30 June 2019, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB2,962 million (for the six months ended 30 June of 2018: RMB6,322 million).

During the six months ended 30 June 2019, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB695 million (for the six months ended 30 June 2018: RMB729 million).

During the six months ended 30 June 2019, the amount of management fee income received from the unconsolidated asset management schemes by the Group is RMB367 million (for the six months ended 30 June of 2018: RMB405 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2019 with a maturity date before 30 June 2019 was RMB883,759 million (for the six months ended 30 June 2018: RMB1,214,736 million).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019

(Expressed in millions of Renminbi unless otherwise stated)

46. Non-Adjusting Events After Reporting Period

Approved by CBIRC and PBOC, the Bank issued RMB30,000 million of Small-scale special financial bonds which are 3-year fixed-rate bonds with annual interest rate of 3.50% on the National Inter-bank Bond Market on July 9, 2019.

The Group's subsidiary, CMB International Leasing Management Limited issued 5-year notes amounting to USD900 million with interest rate of 3.00% per annum and 10-year notes amounting to USD100 million with interest rate of 3.625% notes per annum on July 3, 2019.

The 3rd meeting of the Eleventh Session of the Board of Directors of the Company considered and approved the "Proposal regarding the Issuance of Write-down Undated Capital Bonds" on 23 August 2019, deciding to issue the write-down undated capital bonds domestically with an issue size of not more than RMB50,000 million.

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 2019.

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 and regions.

In accordance with the Internally-Modelled Based Approaches 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 2019	31 December 2018
Core tier-1 capital adequacy ratio	11.42%	11.78%
Tier-1 capital adequacy ratio	12.19%	12.62%
Capital adequacy ratio	15.09%	15.68%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	25,220	25,220
Qualifying portion of capital reserve	67,265	67,149
Surplus reserves	53,576	53,648
Regulatory general reserve	79,626	78,543
Retained profits	296,935	272,510
Qualifying portion of non-controlling interests	216	207
Others (note (i))	7,739	6,858
Total core tier-1 capital	530,577	504,135
Regulatory deductions from core tier-1 capital	25,664	21,795
Net core tier-1 capital	504,913	482,340
Additional tier-1 capital (note (ii))	34,094	34,093
Net tier-1 capital	539,007	516,433
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	31,700	43,000
Surplus provision for loans impairment	96,264	82,393
Qualifying portion of non-controlling interests	57	55
Total tier-2 capital	128,021	125,448
Regulatory deductions from core tier-2 capital	—	—
Net tier-2 capital	128,021	125,448
Net capital	667,028	641,881
Total risk-weighted assets	4,420,489	4,092,890

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital Adequacy Ratio *(continued)*

Notes:

- (i): Under CBIRC's Administrative Measures on the Capital of Commercial Banks (Trial), others include exchange reserve of foreign currency in consolidated financial statements, etc.
- (ii): The Group's additional tier-1 capital includes preferred shares, qualifying portion of non-controlling interests, etc.

As at 30 June 2019, by the method of calculating credit risk using the Standardised Approaches, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 10.17%, tier-1 capital adequacy ratio is 10.86%, capital adequacy ratio is 12.60%, net capital is RMB625,711 million and total risk-weighted assets is RMB4,964,014 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 were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries and regions.

Summary comparison of accounting assets and leverage ratio exposure measure:

	30 June 2019	31 December 2018
Total consolidated assets as per published financial statements	7,193,181	6,745,729
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(12,479)	(9,608)
Adjustments for fiduciary assets	–	–
Adjustments for derivative financial instruments	11,967	8,744
Adjustment for securities financing transactions	22,228	34,953
Adjustment for off-balance sheet items	1,198,142	1,054,031
Other adjustments	(25,664)	(21,795)
Balance of adjusted on-balance sheet and off-balance sheet assets	8,387,375	7,812,054

Unaudited Supplementary Financial Information

(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 2019	31 December 2018
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	6,893,302	6,502,515
Less: Asset amounts deducted in determining Basel III Tier 1 capital	(25,664)	(21,795)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	6,867,638	6,480,720
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	13,246	17,420
Add-on amounts for potential future exposure associated with all derivatives transactions	25,116	24,590
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	1,138	954
Less: Adjusted effective notional deductions for written credit derivatives	—	—
Total derivative exposures	39,500	42,964
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	259,867	199,386
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	—	—
Counterparty credit risk exposure for SFT assets	22,228	34,953
Agent transaction exposures	—	—
Total securities financing transaction exposures	282,095	234,339
Off-balance sheet exposure at gross notional amount	2,170,536	1,964,539
Less: Adjustments for conversion to credit equivalent amounts	(972,394)	(910,508)
Balance of adjusted off-balance sheet assets	1,198,142	1,054,031
Net tier-1 capital	539,007	516,433
Balance of adjusted on-balance sheet and off-balance sheet assets	8,387,375	7,812,054
Leverage ratio	6.43%	6.61%

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(C) Liquidity Coverage Ratio

The Group prepared and disclosed information on liquidity coverage ratio in accordance with the "Measures for the Disclosure of Information on Liquidity Coverage Ratio by Commercial Banks". The basis used herein may differ from those adopted in Hong Kong or other countries. The average of liquidity coverage ratio of the Group was 132.49% in the second quarter of 2019, a decrease of 0.34 percentage points from the previous quarter and remained stable. The Group's liquidity coverage ratio at the end of the second quarter of 2019 was 168.91%, which was in line with the 2019 regulatory requirements of the China Bank and Insurance Regulatory Commission. The breakdown of the Group's average value of each item of liquidity coverage ratio in the second quarter of 2019 is set out below:

Serial No.		Unweighted amount (average value)	Weighted amount (average value)
Stock of high quality liquid assets			
1	Total stock of high quality liquid assets		924,471
Cash outflows			
2	Retail and small business customers deposits, of which:	1,621,553	142,871
3	Stable deposits	385,684	19,284
4	Less stable deposits	1,235,869	123,587
5	Unsecured wholesale funding, of which:	2,878,872	1,068,362
6	Operational deposits (excluding correspondent banks)	1,649,080	410,840
7	Non-operational deposits (including all counterparties)	1,186,572	614,302
8	Unsecured debt issuance	43,220	43,220
9	Secured funding		18,531
10	Additional requirements, of which:	1,336,872	397,292
11	Cash outflows arising from derivative contract and other transactions arising from related collateral requirements	343,029	343,029
12	Cash outflows arising from secured debt Instruments funding	–	–
13	Undrawn committed credit and liquidity facilities	993,843	54,263
14	Other contractual obligations to extend funds	47,675	47,675
15	Other contingent funding obligations	4,528,504	81,741
16	Total cash outflows		1,756,472
Cash inflows			
17	Secured lending (including reverse repo and securities borrowing)	151,126	150,923
18	Contractual inflows from fully performing loans	853,154	547,355
19	Other cash inflows	361,124	360,446
20	Total cash inflows	1,365,404	1,058,724

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(C) Liquidity Coverage Ratio *(continued)*

Serial No.		Unweighted amount (average value)	Weighted amount (average value)
		Adjusted value	
21	Total stock of high quality liquid assets		924,471
22	Net cash outflows		697,748
23	Liquidity coverage ratio (%)		132.49%

Note:

- (i) The data of mainland in the above table is a simple arithmetic average of the 91-day value for the latest quarter and the monthly average for the date of subsidiaries.
- (ii) The high quality liquid assets in the above table are prepared by the central bank reserve available under cash and pressure conditions, as well as the bond in line with definition of Tier 1 and Tier 2 assets set by China Banking and Insurance Regulatory Commission on the "Measures for the Liquidity Risk Management of Commercial Banks".

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(D) Net Stable Funding Ratio

The Group prepared and disclosed information on net stable funding ratio in accordance with the “Measures for the Disclosure of Information on Net Stable Funding Ratio by Commercial Banks”. The Group’s net stable funding ratio at the end of the second quarter of 2019 was 119.65%, representing an increase of 3.73 percentage points as compared with the previous quarter, which was mainly due to the increase in retail deposits and deposits from small business customer. The breakdown of the Group’s net stable fund ratio in the last three quarters is set out below:

30 June 2019

Serial No.		Unweighted amount 6 months to				Weighted amount
		No maturity	< 6 months	12 months	≥ 12 months	
Available stable funding (ASF) item						
1	Capital	563,021	–	–	43,000	606,021
2	Regulatory capital	551,321	–	–	43,000	594,321
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,319,334	453,593	52,702	94,915	1,757,668
5	Stable deposits	387,940	5,643	157	85	374,138
6	Less stable deposits	931,394	447,950	52,545	94,830	1,383,530
7	Wholesale funding	1,843,156	1,853,846	400,823	301,093	1,986,714
8	Operational deposits	1,794,488	77	–	–	897,283
9	Other wholesale funding	48,668	1,853,769	400,823	301,093	1,089,431
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	62,592	137,400	4,206	63,500	19,211
12	NSFR derivative liabilities	–	–	–	46,391	–
13	All other liabilities and equity not included in the above categories	62,592	137,400	4,206	17,109	19,211
14	Total ASF					4,369,614
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					129,914
16	Deposits held at other financial institutions for operational purposes	52,600	2,304	–	–	27,452
17	Performing loans and securities	113,544	1,945,096	957,484	2,315,806	3,164,885
18	Performing loans to financial institutions secured by Level 1 HQLA	–	136,112	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	392	673,501	177,774	28,969	239,356
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,066,326	728,376	1,205,792	1,889,652
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	129,987	69,330	163,110	205,680
22	Performing residential mortgages, of which:	–	52,217	27,310	976,671	869,934
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	113,152	16,940	24,024	104,374	165,943
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	103,451	28,409	1,106	50,136	161,761
27	Physical traded commodities, including gold	3,019	–	–	–	2,566
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	–	–	–	243	206
29	NSFR derivative assets	–	–	–	30,218	–
30	NSFR derivative liabilities before deduction of variation margin posted	–	–	–	46,836	9,367
31	All other assets not included in the above categories	100,432	28,409	1,106	19,675	149,622
32	Off-balance sheet items	–	–	–	6,311,217	168,029
33	Total RSF					3,652,041
34	Net Stable Funding Ratio (%)					119.65%

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(D) Net Stable Funding Ratio *(continued)*

31 March 2019

Serial No.		Unweighted amount 6 months to				Weighted amount
		No maturity	< 6 months	12 months	≥ 12 months	
Available stable funding (ASF) item						
1	Capital	563,074	–	–	43,000	606,074
2	Regulatory capital	551,374	–	–	43,000	594,374
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,281,953	416,330	55,014	85,416	1,682,540
5	Stable deposits	377,226	5,730	163	71	364,034
6	Less stable deposits	904,727	410,600	54,851	85,345	1,318,506
7	Wholesale funding	1,688,418	1,696,377	329,496	310,133	1,843,375
8	Operational deposits	1,647,736	2,252	652	–	825,320
9	Other wholesale funding	40,682	1,694,125	328,844	310,133	1,018,055
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	41,055	218,802	4,109	61,171	15,796
12	NSFR derivative liabilities	–	–	–	47,430	–
13	All other liabilities and equity not included in the above categories	41,055	218,802	4,109	13,741	15,796
14	Total ASF					4,147,785
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					103,656
16	Deposits held at other financial institutions for operational purposes	64,651	10,195	–	–	37,423
17	Performing loans and securities	93,990	1,597,199	1,044,913	2,228,431	3,041,850
18	Performing loans to financial institutions secured by Level 1 HQLA	–	68,993	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	481	480,974	214,276	29,962	219,667
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	986,619	758,010	1,161,607	1,828,593
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	120,559	109,663	157,057	217,198
22	Performing residential mortgages, of which:	–	42,529	41,356	929,548	830,777
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	93,509	18,084	31,271	107,314	162,813
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	97,166	22,297	626	128,723	229,329
27	Physical traded commodities, including gold	3,052				2,595
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				320	272
29	NSFR derivative assets				28,548	–
30	NSFR derivative liabilities before deduction of variation margin posted				47,851	9,570
31	All other assets not included in the above categories	94,114	22,297	626	99,855	216,892
32	Off-balance sheet items				6,157,059	165,733
33	Total RSF					3,577,991
34	Net Stable Funding Ratio (%)					115.92%

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(D) Net Stable Funding Ratio *(continued)*

31 December 2018

Serial No.		No maturity	Unweighted amount 6 months to			Weighted amount
			< 6 months	12 months	≥ 12 months	
Available stable funding (ASF) item						
1	Capital	538,227	–	–	43,000	581,227
2	Regulatory capital	526,527	–	–	43,000	569,527
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,313,863	397,931	36,268	76,790	1,669,226
5	Stable deposits	377,144	6,325	111	62	364,464
6	Less stable deposits	936,719	391,606	36,157	76,728	1,304,762
7	Wholesale funding	1,715,090	1,745,070	323,676	300,446	1,851,034
8	Operational deposits	1,666,505	5,101	–	–	835,803
9	Other wholesale funding	48,585	1,739,969	323,676	300,446	1,015,231
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	33,912	149,886	5,132	66,438	18,167
12	NSFR derivative liabilities				50,837	
13	All other liabilities and equity not included in the above categories	33,912	149,886	5,132	15,601	18,167
14 Total ASF						4,119,654
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					102,640
16	Deposits held at other financial institutions for operational purposes	66,612	5,087	–	–	35,849
17	Performing loans and securities	89,546	1,774,289	999,607	2,157,673	3,001,740
18	Performing loans to financial institutions secured by Level 1 HQLA	–	100,941	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	379	580,173	162,433	32,018	215,563
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	1,005,147	759,623	1,134,828	1,817,707
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	140,201	119,938	147,702	226,076
22	Performing residential mortgages, of which	–	49,280	47,126	878,141	793,384
23	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	–	–	–	–
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	89,167	38,748	30,425	112,686	175,086
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	99,718	18,361	1,650	90,897	186,371
27	Physical traded commodities, including gold	6,636				5,641
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				312	265
29	NSFR derivative assets				33,490	–
30	NSFR derivative liabilities before deduction of variation margin posted				51,383	10,277
31	All other assets not included in the above categories	93,082	18,361	1,650	57,095	170,188
32	Off-balance sheet items				6,038,675	111,993
33 Total RSF						3,438,593
34 Net Stable Funding Ratio (%)						119.81%

Note:

- (i) Items to be reported in the “no maturity” time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.
- (ii) The item 26 “Other assets” unweighted amount in the above table does not include the item 30 “NSFR derivative liabilities before deduction of variation margin posted”.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(E) 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 2019				
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	96,883	4,211	64,892	165,986
Asia Pacific excluding Mainland China	49,793	27,885	169,990	247,668
– of which attributed to Hong Kong	33,479	26,324	148,612	208,415
Europe	11,592	1,701	16,511	29,804
North and South America	33,518	22,548	53,944	110,010
Total	191,786	56,345	305,337	553,468

31 December 2018				
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	111,457	5,976	60,589	178,022
Asia Pacific excluding Mainland China	49,092	22,016	162,613	233,721
– of which attributed to Hong Kong	26,210	20,720	143,855	190,785
Europe	18,219	732	17,117	36,068
North and South America	43,707	18,407	57,912	120,026
Total	222,475	47,131	298,231	567,837

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(F) Overdue Loans and Advances to Customers

(i) By geographical segments

	30 June 2019	31 December 2018
Headquarters	10,242	6,025
Yangtze River Delta region	6,385	7,834
Bohai Rim region	6,605	7,798
Pearl River Delta and West Coast region	6,706	6,020
Northeast region	3,097	3,922
Central region	3,026	4,003
Western region	5,284	5,460
Outside Mainland China	414	248
Subsidiaries	1,016	962
Total	42,775	42,272

(ii) By overdue period

	30 June 2019	31 December 2018
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)	8,404	7,057
– between 6 and 12 months (inclusive)	12,109	9,390
– over 12 months	22,262	25,825
Total	42,775	42,272
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	0.19%	0.18%
– between 6 and 12 months (inclusive)	0.28%	0.24%
– over 12 months	0.52%	0.66%
Total	0.99%	1.08%

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(F) Overdue Loans and Advances to Customers *(continued)*

(iii) Collateral information

	30 June 2019	31 December 2018
Secured portion of overdue loans and advances	11,208	9,277
Unsecured portion of overdue loans and advances	31,567	32,978
Value of collateral held against overdue loans and advances	25,199	19,137

The amount of the Group's overdue loans and advances to financial institutions as at 30 June 2019 was RMB1 million (31 December 2018: RMB1 million).

Note:

The above analysis represents loans and advances overdue for more than 90 days as required and defined by 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.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(G) Rescheduled Loans and Advances to Customers

	30 June 2019		31 December 2018	
	Amount	% of total loans and advances	Amount	% of total loans and advances
Rescheduled loans and advances to customers (Note)	24,727	0.57%	22,766	0.58%
Less:				
– rescheduled loans and advances overdue more than 90 days	16,576	0.38%	16,218	0.41%
Rescheduled loans and advances overdue less than 90 days	8,151	0.19%	6,548	0.17%

Note: Represents the restructured non-performing loans.

The amount of the Group's rescheduled loans and advances to financial institutions as at 30 June 2019 was RMB1 million (31 December 2018: RMB1 million).

(H) Non-Bank Mainland China Exposures

The Bank is a commercial bank incorporated in the Mainland China with its banking business primarily conducted in the Mainland China. As of 30 June 2019 and 31 December 2018, most of the Bank's exposures arose from businesses with Mainland China non-bank institutions or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(I) Currency Concentrations other than RMB

	30 June 2019			
	USD	HKD	Others	Total
	(in millions of RMB)			
<i>Non-structural position</i>				
Spot assets	442,979	40,292	72,907	556,178
Spot liabilities	445,144	26,798	70,839	542,781
Forward purchased	489,801	19,341	166,321	675,463
Forward written	462,954	18,972	165,015	646,941
Net option position	3,654	(113)	(640)	2,901
Net long position	28,336	13,750	2,734	44,820
Net structural position	8,164	29,569	545	38,278

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(I) Currency Concentrations other than RMB *(continued)*

	31 December 2018			
	USD	HKD	Others	Total
	(in millions of RMB)			
<i>Non-structural position</i>				
Spot assets	464,106	34,567	77,376	576,049
Spot liabilities	453,891	21,100	78,093	553,084
Forward purchased	569,876	15,866	96,770	682,512
Forward written	552,660	18,007	98,857	669,524
Net option position	(4,703)	(107)	511	(4,299)
Net long position	22,728	11,219	(2,292)	31,655
Net structural position	8,208	32,039	547	40,794

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.