招商銀行
CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.
(a joint stock company incorporated in the People's Republic of China with limited liability)

H Share Stock Code : 03968
Preference Share Stock Code : 04614

2019 Annual Report

We are here
Just for you

Contents

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 annual 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 9th meeting of the Eleventh Session of the Board of Directors of the Company was held by way of remote video conference on 20 March 2020. The meeting was presided by Li Jianhong, Chairman of the Board of Directors. 17 out of 17 eligible Directors attended the meeting in person. 9 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. Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu (both being auditors of the Company) have separately reviewed the 2019 annual financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Accounting Standards, and issued standard auditing reports with unqualified opinions.

4. Unless otherwise stated, all monetary sums stated in this annual report are expressed in RMB.

5. 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 annual report.

6. The profit appropriation plan: it was proposed that 10% of the audited net profit of the Company for 2019 of RMB86.085 billion, equivalent to RMB8.609 billion, will be allocated to the statutory surplus reserve, while 1.5% of the total amount of the risk assets, equivalent to RMB10.002 billion, will be 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 will declare a cash dividend of RMB1.20 (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 actual profit appropriations amount in HKD would be calculated based on the average benchmark rate for RMB to HKD published by the People's Bank of China for the previous week (including the day of the general meeting) before the date of the general meeting. The retained profits will be carried forward to the next year. In 2019, the Company did not transfer any capital reserve into share capital. The above profit appropriation plan is subject to consideration and approval at the 2019 Annual General Meeting of the Company.

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.

Definitions

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

The Group:
China Merchants Bank 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

CMB Wealth Management:
CMB Wealth Management Company Limited

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

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

MUCFC:
Merchants Union Consumer Finance Company Limited

CM Securities:
China Merchants Securities Co., Ltd.

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

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

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

Significant Risk Warning

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

Chairman's Statement

The development and reform process of the Bank is a concerto that persists in inheritance, transformation and innovation. In 2019, with the strategic vision of "building the best commercial bank in China with innovation-driven development, leading retail banking and distinguished features", we made unforgettable and proud achievements despite the complicated business environment.

We adhered to the concept of dynamic and balanced development of quality, efficiency and scale, and continuously created value with high-quality growth. Net profit attributable to shareholders of the Company for the year amounted to RMB92.867 billion, a year-on-year increase of 15.28%. The weighted return on average equity (ROAE) rose to 16.84%, which has continued to increase for three consecutive years. As at the end of 2019, the market price of our A Shares and H Shares rose by 53% and 43%, respectively, from the beginning of the year, hitting a record high in market capitalisation. At the same time, we took several measures to achieve the operational goal of "increase in both total loans and number of loan customers, and control of both loan quality and overall costs" of inclusive finance and control the grant of real estate loans. We consistently implemented the financial supply-side reform, prevented and mitigated major risks and satisfied various regulatory requirements for supporting the development of real economy. We continuously optimised asset allocation among major asset categories. As a result, the asset quality continued to improve, the amount and ratio of non-performing loans both declined for three consecutive years, capital maintained its internal generation capacity, and the core Tier 1 capital adequacy ratio kept rising, thus achieving a high-quality growth in a stable and controllable manner.

We are determined to transform and innovate, sow the seeds of innovation and explore possibilities for new business models. Embracing the concept of coexistence and co-development and focusing on high-frequency living scenarios, we cooperate with business partners to provide high-quality services for customers. The Company explored opportunities of building a new and open ecological model by convening a partnership conference held by commercial banks for the first time, at which the Company initiated the establishment of the "Forerunners' Alliance" to participate in coffee retail, travel booking and movie ticket sales. Provisions about Fintech investment, market-based labour recruitment and allocation mechanism and remuneration and incentive system were added into the Articles of Association. We keep on optimising our staff's career development path and strengthen recruitment of and training given to Fintech talents. The establishment of the "Egg Shell" communication platform is to grow the culture of "equality and inclusiveness". In 2019, the Company was among the top five on the list of China's Best Employers of the Year compiled by Zhaopin.com. As such, our systems and talents are well positioned to support innovation-driven development in the long run.

As a responsible corporate citizen we actively deliver our social responsibility. Poverty alleviation efforts have not stopped for the past two decades for Wuding County and Yongren County of Yunnan Province. Specifically, poverty relief through simultaneous development in education, industries and culture is taken forward to build self-development capacity in these areas. Today, Yongren County has been lifted out of poverty while Wuding County has come a long way and is not far from freeing itself from poverty. In the battle against the COVID-19 pandemic, we donated money to support Wuhan in no time to facilitate the construction of the Huoshenshan hospital and Leishenshan hospital in Wuhan, provide convenience to companies to purchase urgently needed medical supplies from overseas by opening a "Green Passage" for remittances, and provide loan term extensions and other measures to help companies resume work and production. Drawing on the Bank's stable, efficient, and convenient Fintech operation, high-quality online services are available for individuals and businesses to participate in donation drives, among other ways to support the nationwide effort to win the battle against the pandemic and ensure the stable operation of the national economy.

Marking the advent of the third decade of the 21st century, this year is going to see more tumultuous changes in world development trend and political landscape. The COVID-19 pandemic has huge adverse impact on worldwide economy, society, finance and local people's lives, poses severe challenges to the state's governance system and capability and has caused serious reflection among people. The China's banking industry is met with both challenges and opportunities: On the one hand, the economic growth rate of China trends downward; the Sino-US trade relation is mired in great uncertainty; interest rate liberalisation is taken further; and banking disintermediation among young customers is underway, all of which pose grave challenges to the operation and management of banking industry. On the other hand, it is evident that the quality of China's economic development is right on an improving trend and financial supply-side reforms are taken forward, which coupled with the growing wealth of residents and deepening of technology applications, as well as the structural and long-lasting opportunities opened up by the pandemic-caused changes in living, production and business models, will fuel the high-quality development of the banking industry.

Li Jianhong
Chairman

How to overcome challenges, seize opportunities and make new achievements for the Bank? Our answer remains unchanged, that is, adhering to inheritance, transformation and innovation.

Without characteristics, there is no competitiveness. The Bank will adhere to its long established retail banking characteristics, give full play to the innovation of the "openness and integration" model and the digital innovation achievements, and forge new characteristics for our businesses with a wide range of connections, multiple connection points and a high degree of digitalisation.

Without innovation, there is no foundation for everlasting growth. In the long run, the Bank will use Fintech to gain insights into customer needs, improve service methods and improve operation efficiency, while continuously improving the model innovation for building an ecosystem with partners. At the same time, it will further increase its efforts in digital transformation, continuously accumulate and consolidate innovation capabilities, further enhance our capabilities in digital customer acquisition, business operation and risk control, promote continuous improvement in operation and management efficiency, so as to form a sustainable, scalable, iterative and upgrading innovation system for the Bank.

Without sound risk control, there is no cornerstone for development. The Bank will continue to consolidate and enhance the sound and prudent risk culture, continuously improve the risk management system, eliminate weaknesses, blind spots and dead corners, optimise the allocation of major asset classes, and strengthen the management of various non-traditional risks.

Without mechanism guarantee, there is no momentum for transformation. The Bank will uphold the corporate governance system in which the President assumes full responsibility under the leadership of the Board of Directors, while insisting on, and constantly enriching and improving the market-oriented incentive mechanism, so as to provide the reassurance and support of systems and mechanisms for the transformation and innovation of the Bank.

Without cultural heritage, there is no spiritual source. The Bank will pass on the heritage of "China Merchant family and Shekou gene (招商血脈， 蛇口基因)" and, with the courage of "daring to become the pioneer" and adoption of a fault tolerance mechanism, promote the "win-win" sharing culture. We will always keep at our original aspiration to business transformation and reform, overcome economic cycles, seize opportunities, and challenge ourselves, so as to foster a cultural atmosphere of "openness, integration, equality and inclusiveness".

2020 is the final year for China to develop into a well-off society and accomplish the 13th Five-Year Plan. The Bank will work relentlessly to "outrun the market and outperform its peers" with stunning performance, create greater value and open a new chapter of strong growth!

China Merchants Bank Co., Ltd.
Chairman

20 March 2020

President's Statement

We remained energised and in good shape and delivered another satisfactory performance in 2019. As at the end of the year, total assets of the Bank reached RMB7.42 trillion, 9.95% higher than the end of the previous year. Net operating income and net profit attributable to shareholders of the Bank amounted to RMB269.788 billion and RMB92.867 billion, a year-on-year increase of 8.59% and 15.28%, respectively. We continued to record an increase in ROAA and ROAE, a decline in both the balance and percentage of non-performing loans and a rise in the allowance coverage ratio. More importantly, we have opened up new room for future development: monthly active users (MAU) of CMB APP and CMB Life APP exceeded 100 million. Digital transformation of retail finance is burgeoning as corporate finance digitalisation is consolidating. Our cloud computing is in a leading position and features an open digital infrastructure cloud platform. We are gaining more efficient growth while keeping our asset growth in check. We have gone beyond the expansion stage centering on scale and structural enlargement and are now devoted to exploring the digital era.

These results are acquired through the abiding supports and encouragement from hundreds of millions of customers, which urged us to keep our commitment that "we are here just for you", and we change for you in step with the situation. The results are also attributed to the Fintech revolution over the past decade which has defined the characteristics of the Bank's new business model. They are also achieved through our unswerving strategic resolve over the past decade: a deeper transformation for "Light-operation Bank", which has been constantly levered by the technology benefits of "All-in-one Card" and the Bank's head start in retail banking brought forth by "The First Transformation".

After the first half of the transformation, our "Light Assets" operation achieved remarkable results, giving us the courage to abandon the dependence on "sheer scale" and seize the opportunity to succeed in structure. As the transformation of "Light-operation Bank" progressed, we recognised that the power of science and technology was the only force that may subvert the business model of commercial banks, and to truly help us realise "Light Operation" and "Light Management". Therefore, we take a clear-cut stand to build a Digital Bank with the focus on exploring new digital business models for development stage 3.0 in the second half of the transformation.

Facing the digital world, **we are growing in constant collisions with reality,** and our biggest gain is that the entire organisation has gradually gotten a feeling about digital transformation, just as we have felt about services in the retail business over the past decade, which has deeply penetrated into the core of our systematic ability. **We are constantly subverting our cognition through trials and errors:** we followed our customers into new living scenarios, but found ourselves as strangers. We strived to forge digital operations, but found that the infrastructure is not sufficient enough. We wanted to gear into the fast lane of technology advancement, but felt that the organisational evolvement lagged behind. We wanted to simplify our organisation, but found that the culture is not open and inclusive enough, which made us falter. We saw our ignorance and insignificance among the stars of the Fintech in the digital era.

We keep a low-profile like an ignorant teenager to embrace the golden digital era. With curiosity and awe, we are enthusiastically looking for the key to unlock our digital doors: openness and integration.

Openness is to seek service opportunities. In the digital era, for customers, finance is just a tool, personal life and business operations are the purpose. Humdrum and isolated financial services are becoming more and more difficult to reach customers. We must follow in the footsteps of customers to identify and adopt the new channel connecting to financial services in the digital era. We will build or cut into customers' financial service ecosystem. The construction of CMB's retail finance-based ecological service platform based on CMB APP and CMB Life APP has begun to take shape. We will "bring in" companies more vigorously, build an ecosystem with our partners, focus on forming advantageous scenarios to cultivate and strengthen user habits. We must stride to "go out", open type II and type III accounts, and output financial service capabilities through API interface to establish a wider ecological alliance. The digitalisation of business operations is an important entrance for customer services in the future. We will seek to use enterprise digital services as the initial product offer to help corporate customers construct their own industrial Internet, and use asset management ecological services as the tipping point to participate in ecosystem construction of financial institution customers.

Integration is to improve service capability. In the digital era, market competition is no longer competition in individual products and business lines, but the competition in the overall ecosystems. This requires us to break down the internal silos and erase business boundaries, draw in energetic forces to act on the market, serve customers, increase service value through service packages, and enhance service stickiness. Openness and integration are two sides of the same coin. Only with openness can we obtain access to more services and richer customer needs, so as to stimulate the ability to integrate; only through integration can we form a complete service ecosystem and further create value for openness.

Openness and integration go with new requirements for our organisational evolution and management upgrades. We are committed to breaking down boundaries in both organisation and operation to forge more task-oriented teams. We work hard to improve middle office capabilities and foster an empowering organisation: build an open, agile and iterative system at middle office, decouple the system, achieve modular-based and product-based functions, and open up all business systems starting from basic setting of technologies. We aim to build a middle office with strong data capability, regard data as core assets, connect internal and external data and improve the big data governance system. We strive to build a pro-business middle office, build a powerful "General Staff Section", empower the market and reduce the burden of front office staff. We expect to build a virtuous cycle where middle office empowers front office, which in turn improves the iteration of middle office, so that the organisation of the Bank can be self-evolved.

The root of openness and integration is the change of culture. Culture is the primary level of productivity and is a tacit value network that links individuals and connects individuals and organisations. If management is a process of filling a container, then system is the stone, the manager is sand and corporate culture is water. Corporate culture, like water, is ubiquitous and nourishing. With an organisation's cultural consciousness, many issues that cannot be covered by system and people can be addressed.

Tian Huiyu
President

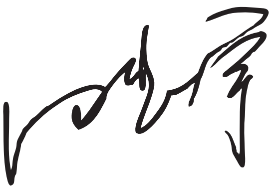
The deepest level of "Light-operation Bank" transformation is light culture. The advocation of "Simple Work Style" signifies our resolve to foster the new corporate culture of "openness, integration, equality and inclusiveness", so that every employee can do the right thing genuinely. The greatest common denominator of value among more than 70,000 CMB staffs will synchronise with hundreds of millions of customers, forming the ultimate protective shield for CMB.

At the start of 2020, the outbreak of COVID-19 pandemic spreading across the globe has brought substantial impacts on the real economy and the financial industry. But we firmly believe that the crisis cannot change the century-long path of China's rise to a great power. Bill Gates once said "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten." We will learn from this crisis. In the face of crisis, it is more important to respond proactively than to predict the outcome. We are convinced that adhering to original aspirations, following the rules, getting closer to customers and the market, proactively embracing change, quick trialing, fast learning and rapid evolution are the best ways to deal with the crisis.

The pandemic not only made us more care about vegetables, masks, relatives and friends, but also made us more faithful in the value of openness, integration and sharing. We cannot predict the future, but firmly believe that only by opening up and integrating more thoroughly and participating in shaping the future can we have a brighter tomorrow.

Road ahead is long and hard. Persist, success is in card. Pure thoughts are issues which remain unresolved until we work on it.

China Merchants Bank Co., Ltd.
President



20 March 2020

Liu Yuan
Chairman of the Board of Supervisors

Company Information

1.1 Company Profile

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

1.1.2 **Legal Representative:** Li Jianhong
Authorised Representatives: Tian Huiyu, Liu Jianjun
Secretary of the Board of Directors: Liu Jianjun
Joint Company Secretaries: Liu Jianjun, Ho Wing Tsz Wendy
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
Certified Public Accountants for Signature: Zeng Hao, Zhu Wei
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 annual 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: 27/F China Merchants Securities Building, No. 111, Fuhua 1st Road, Futian District, Shenzhen
Sponsor Representatives: Wang Yuting, Wei Jinyang
Continuous Supervision Period: 12 January 2018 to 31 December 2019

1.2 Corporate Business Overview

Founded in 1987 with its head office in Shenzhen, China, the Company is a national commercial bank with distinctive features and brand influence 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 Guangdong-Hong Kong-Macao Greater Bay Area, Yangtze 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, CMB Corporate APP, transaction banking services and offshore business services, such as global cash management and trade financing, asset management, asset custody, investment banking and other services, have been widely recognised by consumers in China.

In 2019, the Company actively adapted to the changes in the external and internal environment, gave full play to Fintech as its nuclear power engine, accelerated digital transformation and endeavored to develop itself into a bank that offers the best customer experience. Over the past year, the Company has delivered remarkable results in business development, further consolidated its customer base and steadily improved its customer service capabilities. In 2020, the Company will closely center on the two critical elements, i.e. customers and technologies to deepen its strategic transformation and promote its opening and internal integration, and strive to build the business model for development stage 3.0 along the way of its evolution. For details, please refer to the sections headed "Chairman's Statement" and "President's Statement".

1.3 Development Strategies, Investment Value and Core Competitiveness

Development vision: Building the "Best Commercial Bank in China" with innovation-driven development, leading retail banking and distinguished features.

Strategic objectives: Closely following the direction of transforming into a "Light-operation Bank", accelerating the paces of our construction of the "Light-operation Bank" and promoting the balanced development of "quality, efficiency and scale", making constant efforts to achieve qualitative breakthroughs in our endeavor to build us into a Digital Bank, constantly intensifying our risk management efforts to find a final solution, vigorously growing us into a bank that offers the best customer experience, and further enhancing our internationalized and integrated service capabilities.

Strategic positioning: Adhering to our strategic positioning of "One Body with Two Wings", whereas "One Body" for our retail segment means to take MAU as our "North Star Metric", while focusing on both "customers and technologies", aiming to establish our new competitive edge in the era of mobile internet, and forging a new digital model for retail finance 3.0; the "Two Wings" for our wholesale business means to be oriented towards specialization, focusing on building a complete wholesale business system, accelerating the digital transformation, and accomplishing the high-quality development of the wholesale finance. We should constantly promote the in-depth integration of "One Body with Two Wings", building it into a complete system which can realise organic circulation and mutual promotion, and forming a highly integrated value chain.

Development Strategies:

Proactively occupying the strategic dominant position in the future: Firstly, we are to accelerate the development of our Fintech strategy, i.e. promoting the qualitative change of the financial technology, empowering the digital transformation of our retail finance 3.0 as well as the upgrade of the industrial Internet model. Secondly, we are to implement the strategy of best customer experience, i.e. establishing a closed-loop monitoring system and indicator system for customer experience, conducting regular evaluations and continuously optimising our customers' experience. Thirdly, we are to deepen our risk management strategy, i.e. clearly defining the risk appetites, optimising our risk processes, and establishing a Fintech-driven risk management tool system. Fourthly, we are to promote the synergy efficiently, i.e. creating a coordinated "wealth management-asset management-investment bank" business expansion system, establishing a B2B2C customer-linked operation coordination system, and building a data sharing collaboration system across and beyond the bank.

Pushing forward the transformation of the business model: Firstly, we are to create a new business model for retail finance 3.0, which is Fintech-armed, big data-driven, and MAU-guided, aiming to capture the strategic heights of future development, build a new model of online user acquisition and operation, further promote the digital transformation of retail finance 3.0, and build us into an exceptional bank with the best customer experience. Secondly, we are to promote the high-quality development of our wholesale finance. On the one hand, we must closely follow the direction of the development of our innovative financial services based on the industrial Internet and improve our industry-based comprehensive service capabilities and risk management capabilities. On the other hand, we are to deepen the construction of our customer segmentation and categorisation, as well as a relationship manager management system, and effectively promote the transformation and upgrading of the two major business systems, i.e. transaction banking and investment banking. Thirdly, we are to improve our expertise of comprehensive operation and provide our customers with high-quality and comprehensive financial services. Fourthly, we are to strengthen our international service capabilities and strive to build us into "a bank with the best customer experience in cross-border financial sector".

Building a strong strategic supporting system: Firstly, we are to advance our transformation towards the "Dual-Mode IT"[1] in science and technology, i.e. adhering to the strategy of introducing the leading technologies, adapting to the trend of digitalised, information-based and network-based development, and enhancing our digital innovation capabilities. Secondly, we are to build a light-weight HR management system and grow a talent team with outstanding service strategy, structural optimisation, reasonable echelon and excellent ability. Thirdly, we are to strengthen our asset/liability and financial management, continue to improve our professional capabilities and efficiency in asset/liability management, and build a comprehensive, intelligent and professional financial management system. Fourthly, we are to further the construction of our internal control and compliance system in a quantified, standardised and refined way. Fifthly, we are to build a smart operating system to effectively balance the relationship between customer experience, operating efficiency, operating costs, and operating risks. Sixthly, we are to enrich and develop our CMB culture and brand, and continue to increase its differentiated advantages and influences.

[1] Dual-Mode IT represents two different IT working modes, Mode I is applicable for work with explicit requirements, and Mode II is applicable for exploratory work.

Investment Value and Core Competitiveness:

Well-developed and refined strategic management. Adhering to the strategy-driven development, the Company's strategic management has become increasingly well-developed. It has given full play to its comparative advantages and management potential amidst the crucial period of technological progress, industrial restructuring and deepening of financial market reform. The Company attains proper strategic positioning and vigorously carries out structural adjustment for business development, customers, channels and products in an effort to promote the dynamic and balanced development of "Quality, Efficiency and Scale", thus navigating a differentiated development path with outstanding performance.

Accelerating innovation and changes in corporate culture. With the "Shekou gene" inherited from the reform and opening up, the Company formulated a business philosophy of "we are here just for you", held onto its core values of "service, innovation and prudence", adhered to the distinct corporate culture that strived for excellence and accelerated innovation and changes in the course of its business development. In recent years, under the backdrop of management upgrading, the "Simple Work Style" has been proposed, and a light-operation culture of "openness, integration, equality and inclusiveness" has gradually formed.

Fully empowered Fintech. The Company endeavoured to build itself into a "Digital Bank", and used Fintech as the locomotive to provide "nuclear power" for its transformation and development, so as to fully empower its business development. Through benchmarking with Fintech companies, the Company will build up the overall infrastructure for the Company's financial science and technology, establish an ecological system for the business of the Company with an open mindset and a long-term perspective, and transform the business management model with the concepts and methods of Fintech so as to strengthen the capability of science and technology, promote the integration of technology with business and promote business agility based on agile technology.

Well-structured layout of business plans. Leveraging on its own endowment of resources, the Company established a clear strategic positioning of "One Body with Two Wings" through its focus on business and customers, built a professional system of "Wealth Management – Asset Management – Investment Bank", thereby creating a large- number of industry-leading and distinctive businesses and forming the layout of business plans with a coherent structure and stronger capability to withstand cyclical risks.

Advantageous retail finance. The retail business of the Company set an early lead in the industry and formed an inward development system in terms of customer base, channels, products and brands. At the same time, through vigorous promotion of inclusive and intensive growth and enhancement of refined management, key factors including the proportion of net operating income and profit contribution are among the best in the industry. The Company enjoys a leading advantage in its retail finance.

Distinctive wholesale finance. The Company actively builds a market-leading wholesale finance business with distinctive features and leverages on its professional advantages to provide its clients with customised and integrated financial services. New growth engines such as investment banking, transaction banking, asset custody, asset management, bills and financial markets have been growing continuously and professional service capabilities have been affirmed and recognized by the market and customers.

Scientific and efficient management system. Based on the principle of serving customers and boosting business development, the Company successfully established the comprehensive, modern and scientific risk management system, capital management system, operational management system, information management system, performance appraisal system and human resource management system of the Company which have been put in place and the relevant capabilities acquired can guarantee the steady development of business operation in the long run.

Continuous improvement of the organisational system. In accordance with the direction of "professionalism, delayering and intensification", the Company creates an efficient light management structure, establishes an end-to-end customer service process and builds organisational models with distinctive features, such as setting up business divisions in the branch level. The professionalization level and the efficiency of operation and management have been improving and the speed to respond to customer needs and market changes has been picking up.

Industry-leading quality service. The Company developed a unique service model ever since it was founded. Through its long-term practice, it has established its service concept of "we are here just for you". We attach importance to the customer service experience, proactively promote service upgrading, and always keep its service quality ahead. "Good service" has been the tag for the Company to attract customers and expand market.

Excellent professional personnel. The Company has cultivated and created a high-quality talent team through a people-oriented culture and a market-based talent incentive mechanism. Our senior management team has extensive experience and is well settled down. The overall quality of our staff and their professional skills are industry leading. We took a proactive stance on the competition in Fintech by expanding our introduction and cultivation of Fintech talents.

1.4 Honors and Awards

In 2019, the Company received a number of honors and awards from organisations both at home and abroad, including:

- In January 2019, the Company was honored as an "AA-Level CSR Reporting Enterprise" in the 'A-Share Listed Companies' Social Responsibility Report Summit Forum and 10th Anniversary Ceremony for Social Responsibility Report Rating of Listed Companies" organised by Rankins CSR Ratings (RKS) and SGS-CSTC.
- On the list of "2019 Top 500 World Banks" released by The Banker (UK) in February 2019, the Company ranked 9th with a brand value of USD22.48 billion, up by 2 places from the previous year, and was present among the top 10 for the first time.
- In February 2019, at the "Private Banking and Wealth Management Award Ceremony 2019" organised by Euromoney, the Company won the "China's Best Private Bank" Award for the 9th time.
- In March 2019, the Company won the "Best Credit Card Business Development Award" and "Best Technology Innovation Award" at the award ceremony for the "2019 China Retail Bank" held by Asiamoney; In addition, the Company received the "Best National Joint-Stock Bank" Award at the award ceremony for the "Private Bank of China 2019 "held by Asiamoney.
- In May 2019, the Company was awarded the "Best Electronic Transaction Bank" at the ceremony for the "2019 China Bank of Excellent Transaction" held by Asiamoney.
- In May 2019, the Company won the "Best Financial Innovation Award" in the selection campaign for the "2019 Finance Innovation Award in China" organised by The Banker (China).
- In July 2019, the Company ranked 19th on the list of "Top 1000 World Banks 2019" released by The Banker (UK) with a tier 1 capital of USD75.39 billion, up by 1 place from the previous year.
- In July 2019, the list of Fortune China 500 was published, on which the Company ranked 38th with a revenue of RMB248.555 billion. In the same month, the Company appeared on the list of Fortune Global 500 for 8 consecutive years, ranking 188th, up by 25 places from the previous year.
- In July 2019, the Company received the award of "Best Bank in China" at the "2019 Awards for Excellence" Ceremony staged by Euromoney.
- In July 2019, the Company was honored as the "2019 Best Asset Management Bank" at the award ceremony for the "12th Golden-Shell Award of China Asset Managements" hosted by 21st Century Business Herald.
- In July 2019, in the "2019 International Excellence in Retail Financial Services Awards Ceremony" organised by The Asian Banker, the Company was honored as the "Best Retail Bank in China" for the 10th time and the "Best Joint Stock Retail Bank in China" for the 15th time.
- In August 2019, at the awards ceremony for the "2019 All-Asia Executive Team" held by the Institutional Investor (a renowned magazine based in US), the Company championed all the seven awards in banking sector in Asia, including "Honored Companies", "Best CEO", "Best CFO", "Best Corporate Governance", "Best IR Company", "Best ESG/SRI Meyrics" and "Best IR Professional".
- In September 2019, the Company won two exceptional awards, i.e. the "Best A-share Listed Company in 2019" and the "Best Corporate Management in Asia for the 30th Anniversary" at the annual awards ceremony held by Asiamoney. In addition, the Company was granted the "Best Corporate Finance and Investment Bank in China" and "Best M&A Financing Business" Awards at the ceremony for the "2019 China Excellent Corporate Finance and Investment Banking Awards".
- In November 2019, the Company was awarded the "Star of Family Office and Wealth Management Star" at the awards ceremony for Star of China organised by Global Finance (a renowned magazine based in US).
- In November 2019, the Company won three exceptional awards, i.e. the "Top 10 Best Employers", "Most Socially Responsible Employer", and "Most Admired Employer by Women" at the awards ceremony for the "Best Employer in China 2019" jointly organised by Zhaopin.com and Institute of Social Science Survey, Peking University.
- In December 2019, the Company received the "China's Private Bank of the Year" Award at the ceremony for "Asian Banker 2019 – Global Wealth and Society Awards Program" held by The Asian Banker.

Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

(in millions of RMB, unless otherwise specified)	2019	2018	Changes +/(-)%
Operating Results			
Net operating income[(1)]	269,788	248,444	8.59
Profit before tax	117,132	106,497	9.99
Net profit attributable to shareholders of the Bank	92,867	80,560	15.28
Per Share (RMB)			
Basic earnings attributable to ordinary shareholders of the Bank[(2)]	3.62	3.13	15.65
Diluted earnings attributable to ordinary shareholders of the Bank	3.62	3.13	15.65
Year-end net assets attributable to ordinary shareholders of the Bank	22.89	20.07	14.05

(in millions of RMB, unless otherwise specified)	31 December 2019	31 December 2018	Changes +/(-)%
Volume Indicators			
Total assets	7,417,240	6,745,729	9.95
of which: total loans and advances to customers[(3)]	4,490,650	3,933,034	14.18
Total liabilities	6,799,533	6,202,124	9.63
of which: total deposits from customers[(3)]	4,844,422	4,400,674	10.08
Total equity attributable to shareholders of the Bank	611,301	540,118	13.18

Notes:

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

(2) The Bank issued non-cumulative preference shares in 2017, and paid dividends on the preference shares during the year. Therefore, when calculating basic earnings per share, return on average equity and net assets per share, dividends on the preference shares were 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

(%)	2019	2018	Changes
Profitability indicators			
Return on average assets attributable to shareholders of the Bank	1.31	1.24	Increased by 0.07 percentage point
Return on average equity attributable to ordinary shareholders of the Bank	16.84	16.57	Increased by 0.27 percentage point
Net interest spread(1)	2.48	2.44	Increased by 0.04 percentage point
Net interest margin(2)	2.59	2.57	Increased by 0.02 percentage point
As percentage of net operating income			
– Net interest income	64.16	64.56	Decreased by 0.40 percentage point
– Net non-interest income	35.84	35.44	Increased by 0.40 percentage point
Cost-to-income ratio(3)	32.08	31.04	Increased by 1.04 percentage points

(%)	31 December 2019	31 December 2018	Changes over 2018 year-end
Capital adequacy indicators under the Advanced Measurement Approach(4)			
Core Tier 1 capital adequacy ratio	11.95	11.78	Increased by 0.17 percentage point
Tier 1 capital adequacy ratio	12.69	12.62	Increased by 0.07 percentage point
Capital adequacy ratio	15.54	15.68	Decreased by 0.14 percentage point
Equity to total assets	8.33	8.06	Increased by 0.27 percentage point
Asset quality indicators			
Non-performing loan ratio	1.16	1.36	Decreased by 0.20 percentage point
Allowance coverage ratio of non-performing loans(5)	426.78	358.18	Increased by 68.60 percentage points
Allowance ratio of loans(6)	4.97	4.88	Increased by 0.09 percentage point

Notes:

(1) Net interest spread = average yield of the total interest-earning assets – average cost ratio of total interest-bearing liabilities.

(2) Net interest margin = net interest income/average balance of total interest-earning assets.

(3) 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.

(4) As at the end of the reporting period, the Group's capital adequacy ratio, Tier 1 capital adequacy ratio and Core Tier 1 capital adequacy ratio under the Weighted Approach were 13.02%, 11.30% and 10.64% respectively.

(5) Allowance coverage ratio of non-performing loans = allowances for impairment losses/balance of non-performing loans.

(6) Allowance ratio of loans = allowances for impairment losses/total loans and advances to customers.

2.3 Five-year Financial Summary

(in millions of RMB)	2019	2018	2017	2016	2015
Results for the year					
Net operating income	**269,788**	248,444	221,037	210,270	202,302
Operating expenses	**91,497**	81,110	70,431	65,148	67,957
Impairment losses	**61,159**	60,837	59,926	66,159	59,266
Profit before tax	**117,132**	106,497	90,680	78,963	75,079
Net profit attributable to shareholders of the Bank	**92,867**	80,560	70,150	62,081	57,696
(RMB)					
Per Share					
Dividend (tax inclusive)	**1.20**	0.94	0.84	0.74	0.69
Basic earnings attributable to ordinary shareholders of the Bank	**3.62**	3.13	2.78	2.46	2.29
Diluted earnings attributable to ordinary shareholders of the Bank	**3.62**	3.13	2.78	2.46	2.29
Year-end net assets attributable to ordinary shareholders of the Bank	**22.89**	20.07	17.69	15.95	14.31
(in millions of RMB)					
Year end					
Share capital	**25,220**	25,220	25,220	25,220	25,220
Total shareholders’ equity	**617,707**	543,605	483,392	403,362	361,758
Total liabilities	**6,799,533**	6,202,124	5,814,246	5,538,949	5,113,220
Deposits from customers	**4,844,422**	4,400,674	4,064,345	3,802,049	3,571,698
Total assets	**7,417,240**	6,745,729	6,297,638	5,942,311	5,474,978
Total loans and advances to customers	**4,490,650**	3,933,034	3,565,044	3,261,681	2,824,286
(%)					
Key Financial Ratios					
Return on average assets attributable to shareholders of the Bank	**1.31**	1.24	1.15	1.09	1.13
Return on average equity attributable to ordinary shareholders of the Bank	**16.84**	16.57	16.54	16.27	17.09
Cost-to-income ratio	**32.08**	31.04	30.21	27.60	27.55
Non-performing loan ratio	**1.16**	1.36	1.61	1.87	1.68
Core Tier 1 capital adequacy ratio under the Advanced Measurement Approach	**11.95**	11.78	12.06	11.54	10.83
Tier 1 capital adequacy ratio under the Advanced Measurement Approach	**12.69**	12.62	13.02	11.54	10.83
Capital adequacy ratio under the Advanced Measurement Approach	**15.54**	15.68	15.48	13.33	12.57

Simple Work Style

“Whenever one negotiation can not conclude one pending issue, escalate.

All ideas are equal in the eyes of data.

Do the right thing, even if it’s not your thing.”

Report of the Board of Directors

3.1 Analysis of Overall Operation

In 2019, the Group continued to implement its strategic direction of "Light-operation Bank" and the strategic positioning of "One Body with Two Wings" by carrying out various businesses in a proactive and sound manner. Our overall operation continued to improve and the dynamic and balanced development of "Quality, Efficiency and Scale" was achieved, which were reflected mainly in the following aspects:

Earnings increased rapidly with higher capital returns. In 2019, the Group realised a net profit attributable to shareholders of the Bank of RMB92.867 billion, representing a year-on-year increase of 15.28%, the highest since 2013; the net interest income was RMB173.090 billion, representing a year-on-year increase of 7.92%; the net non-interest income was RMB96.698 billion, representing a year-on-year increase of 9.81%; the return on average asset (ROAA) attributable to shareholders of the Bank and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.31% and 16.84%, up by 0.07 percentage point and 0.27 percentage point from 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 RMB7,417.240 billion, representing an increase of 9.95% as compared with the end of the previous year. The total loans and advances to customers amounted to RMB4,490.650 billion, representing an increase of 14.18% as compared with the end of the previous year. Total liabilities amounted to RMB6,799.533 billion, representing an increase of 9.63% as compared with the end of the previous year. Total deposits from customers amounted to RMB4,844.422 billion, representing an increase of 10.08% as compared with the end of the previous year.

The quality of our assets continued to improve with a decrease in both the balance and percentage of non-performing loans, and the allowance coverage ratio remained solid. As at the end of the reporting period, the Group had total non-performing loans of RMB52.275 billion, representing a decrease of RMB1.330 billion as compared with the end of the previous year. The non-performing loan ratio was 1.16%, down by 0.20 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 426.78%, representing an increase of 68.60 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.97%, representing an increase of 0.09 percentage point as compared with the end of the previous year.

3.2 Analysis of Income Statement

3.2.1 Financial highlights

In 2019, the Group realised a profit before tax of RMB117.132 billion, representing a year-on-year increase of 9.99%. The effective income tax rate was 20.24%, representing a year-on-year decrease of 3.87 percentage points. The following table sets out the changes in major income/loss items of the Group in 2019.

(in millions of RMB)	2019	2018	Changes
Net interest income	**173,090**	160,384	12,706
Net fee and commission income	**71,493**	66,480	5,013
Other net income	**23,482**	20,271	3,211
Operating expenses	**(91,497)**	(81,110)	(10,387)
Share of profits of associates and joint ventures	**1,723**	1,309	414
Expected credit losses	**(61,066)**	(60,829)	(237)
Impairment losses on other assets	**(93)**	(8)	(85)
Profit before tax	**117,132**	106,497	10,635
Income tax	**(23,709)**	(25,678)	1,969
Net profit	**93,423**	80,819	12,604
Net profit attributable to shareholders of the Bank	**92,867**	80,560	12,307

3.2.2 Net operating income

In 2019, the net operating income of the Group was RMB269.788 billion, representing an increase of 8.59% as compared with the previous year. The net interest income accounted for 64.16% of the net operating income, the net non-interest income accounted for 35.84% of the net operating income, representing a year-on-year increase of 0.40 percentage point.

The following table sets out the percentages of the components of the net operating income of the Group in the recent three years.

(%)	2019	2018	2017
Net interest income	64.16	64.56	65.53
Net fee and commission income	26.50	26.76	28.96
Other net income	8.70	8.16	5.05
Share of profits of associates and joint ventures	0.64	0.52	0.46
Total	100.00	100.00	100.00

3.2.3 Interest income

In 2019, the Group recorded an interest income of RMB292.994 billion, representing a year-on-year increase of 8.15%, 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

In 2019, the interest income from loans and advances to customers of the Group was RMB221.979 billion, representing a year-on-year increase of 13.04%.

The following table sets forth, for the periods indicated, the average balance, interest income and average yield of each component of loans and advances to customers of the Group.

	2019			2018		
(in millions of RMB, except for percentages)	Average Balance	Interest Income	Average yield (%)	Average Balance	Interest Income	Average yield (%)
Corporate loans	1,818,831	78,914	4.34	1,743,614	73,954	4.24
Retail loans	2,220,299	134,763	6.07	1,886,389	113,698	6.03
Discounted bills	250,635	8,302	3.31	195,120	8,718	4.47
Loans and advances to customers	4,289,765	221,979	5.17	3,825,123	196,370	5.13

In 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 RMB1,668.152 billion with the interest income amounting to RMB100.094 billion, and the average yield reached 6.00%; the average balance of medium-to-long term loans was RMB2,316.817 billion with the interest income amounting to RMB109.447 billion, and the average yield reached 4.72%. 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 overdrafts and micro-finance loans in short-term loans.

Interest income from investments

In 2019, the interest income from investments of the Group was RMB48.902 billion, representing a year-on-year increase of 1.32%. The average yield of investments was 3.66%, down by 11 basis points as compared with the previous year, which was mainly attributable to the impact of the falling market interest rates.

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

In 2019, the interest income of the Group from balances and placements with banks and other financial institutions was RMB14.354 billion, representing a year-on-year decrease of 21.62%, and the average yield of balances and placements with banks and other financial institutions was 2.51%, representing a year-on-year decrease of 40 basis points, which was primarily attributable to the Group's efforts towards continued optimisation of its assets structure and the reduction in the allocation of low-yield assets such as the placements with banks and other financial institutions during the period of downward market interest rates.

3.2.4 Interest expense

In 2019, the interest expense of the Group was RMB119.904 billion, representing a year-on-year increase of 8.48%, which was primarily attributable to the increase in the size of interest-bearing liabilities and the persistent increase in the cost ratio of deposits from customers, which has bolstered up the interest expense of the Group.

Interest expense on deposits from customers

In 2019, the Group's interest expense on deposits from customers was RMB73.430 billion, up by 18.46% as compared with the previous year, which was mainly due to the intensified competition in deposits in addition to the increase in size, as well as the Group appropriately increasing the supply of the relatively high-cost deposit products such as structured deposits and large- deposit certificates in order to accommodate our customers' matured wealth management funds, resulting in a rise in the cost ratio of deposits.

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

	2019			2018		
(in millions of RMB, except for percentages)	Average Balance	Interest Expense	Average cost ratio (%)	Average Balance	Interest Expense	Average cost ratio (%)
Deposits from corporate customers						
Demand	1,607,847	13,245	0.82	1,559,171	12,641	0.81
Time	1,363,971	38,900	2.85	1,242,061	34,166	2.75
Subtotal	2,971,818	52,145	1.75	2,801,232	46,807	1.67
Deposits from retail customers						
Demand	1,081,045	3,973	0.37	1,029,918	3,409	0.33
Time	584,104	17,312	2.96	438,373	11,771	2.69
Subtotal	1,665,149	21,285	1.28	1,468,291	15,180	1.03
Total	4,636,967	73,430	1.58	4,269,523	61,987	1.45

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

In 2019, the interest expense of the Group on deposits and placements from banks and other financial institutions amounted to RMB19.079 billion, representing a year-on-year decrease of 17.15%, which was primarily due to the declining market interest rates, which in turn brought down the cost of interbank liabilities. Meanwhile, the Group continued to optimise its liability structure and constantly increased the proportion of its proprietary deposits, and had the proportion of its interbank liabilities under proper control in line with the market liquidity conditions.

Interest expense on debt securities issued

In 2019, the interest expense on debt securities issued of the Group amounted to RMB17.631 billion, representing a year-on-year increase of 21.34%, which was primarily attributable to the increase in interbank certificates of deposits and long-term debt securities.

3.2.5 Net interest income

In 2019, the Group's net interest income amounted to RMB173.090 billion, representing a year-on-year increase of 7.92%.

The following table sets out the average balances of assets and liabilities, interest income/interest expense, and average yield/cost ratio of the Group for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	2019			2018		
(in millions of RMB, except for percentages)	Average Balance	Interest Income	Average yield (%)	Average Balance	Interest Income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	4,289,765	221,979	5.17	3,825,123	196,370	5.13
Investments	1,335,247	48,902	3.66	1,278,915	48,267	3.77
Balances with the central bank	493,722	7,759	1.57	510,760	7,961	1.56
Balances and placements with banks and other financial institutions	570,995	14,354	2.51	630,169	18,313	2.91
Total	6,689,729	292,994	4.38	6,244,967	270,911	4.34

(in millions of RMB, except for percentages)	Average Balance	Interest Expense	Average cost ratio (%)	Average Balance	Interest Expense	Average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	4,636,967	73,430	1.58	4,269,523	61,987	1.45
Deposits and placements from banks and other financial institutions	843,293	19,079	2.26	863,041	23,028	2.67
Debt securities issued	504,241	17,631	3.50	340,151	14,530	4.27
Borrowings from the central bank	300,662	9,207	3.06	348,093	10,982	3.15
Lease liabilities	13,605	557	4.09	N/A	N/A	N/A
Total	6,298,768	119,904	1.90	5,820,808	110,527	1.90
Net interest income	/	173,090	/	/	160,384	/
Net interest spread	/	/	2.48	/	/	2.44
Net interest margin	/	/	2.59	/	/	2.57

Note: The Group began to implement the International Financial Reporting Standard 16 – Leases (the "New Lease Standards") on 1 January 2019, pursuant to which, 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 lease contracts. The comparable figures for the corresponding period of the previous year were not subject to adjustment.

In 2019, the average yield of our interest-earning assets was 4.38%, representing a year-on-year increase of 4 basis points; the average cost ratio of our interest-bearing liabilities was 1.90%, same as that of the previous year; the net interest spread and the net interest margin were 2.48% and 2.59%, representing a year-on-year increase of 4 and 2 basis points, respectively.

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 were measured by changes in average balances (daily average balance), while changes in interest rate were 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.

	2019 compared with 2018		
	Increase (decrease) due to		Net increase
(in millions of RMB)	Volume	Interest rate	(decrease)
Interest-earning assets			
Loans and advances to customers	24,043	1,566	25,609
Investments	2,063	(1,428)	635
Balances with the central bank	(268)	66	(202)
Balances and placements with banks and other financial institutions	(1,488)	(2,471)	(3,959)
Changes in interest income	**24,350**	**(2,267)**	**22,083**
Interest-bearing liabilities			
Deposits from customers	5,819	5,624	11,443
Deposits and placements from banks and other financial institutions	(447)	(3,502)	(3,949)
Debt securities issued	5,737	(2,636)	3,101
Borrowings from the central bank	(1,452)	(323)	(1,775)
Lease liabilities	557	–	557
Changes in interest expense	**10,214**	**(837)**	**9,377**
Changes in net interest income	**14,136**	**(1,430)**	**12,706**

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. The average balance of the interest-earning assets and interest-bearing liabilities is the daily average balance.

	October to December 2019			July to September 2019		
(in millions of RMB, except for percentages)	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets						
Loans and advances to customers	4,462,793	55,710	4.95	4,404,849	57,191	5.15
Investments	1,339,480	12,290	3.64	1,351,054	12,366	3.63
Balances with the central bank	503,820	1,973	1.55	502,025	1,979	1.56
Balances and placements with banks and other financial institutions	608,711	3,597	2.34	542,496	3,371	2.47
Total	6,914,804	73,570	4.22	6,800,424	74,907	4.37

(in millions of RMB, except for percentages)	Average balance	Interest Expense	Annualised average cost ratio (%)	Average balance	Interest Expense	Annualised average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	4,816,302	19,800	1.63	4,733,875	19,517	1.64
Deposits and placements from banks and other financial institutions	844,704	4,681	2.20	861,608	4,719	2.17
Debt securities issued	572,873	4,849	3.36	549,771	4,605	3.32
Borrowings from the central bank	289,380	2,211	3.03	275,671	2,116	3.05
Lease liabilities	15,776	163	4.10	12,873	133	4.10
Total	6,539,035	31,704	1.92	6,433,798	31,090	1.92
Net interest income	/	41,866	/	/	43,817	/
Net interest spread	/	/	2.30	/	/	2.45
Net interest margin	/	/	2.40	/	/	2.56

In the fourth quarter of 2019, the net interest margin of the Group was 2.40%, down by 16 basis points as compared with the third quarter of 2019, and its net interest spread was 2.30%, down by 15 basis points as compared with the third quarter of 2019. The annualised average yield of the interest-earning assets was 4.22%, down by 15 basis points as compared with the third quarter of 2019 while the annualised average cost ratio of interest-bearing liabilities was 1.92%, remaining the same as compared with the third quarter of 2019. For the reasons for the decrease in the Company's net interest margin from the previous quarter, please refer to 3.9.1 "Net interest margin" in this chapter.

3.2.6 Net non-interest income

In 2019, the Group recorded a net non-interest income of RMB96.698 billion, up by 9.81% from the previous year. The components are as follows:

Net fee and commission income amounted to RMB71.493 billion, representing an increase of 7.54% as compared with the previous year. Among the fee and commission income, income from bank card fees amounted to RMB19.551 billion, representing an increase of 16.88% as compared with the previous year, which was primarily attributable to the increase in bank card transaction volume, hence resulting in the increase in revenue; income from settlement and clearing fees amounted to RMB11.492 billion, representing an increase of 11.93% as compared with the previous year, which was primarily attributable to the increase in income from e-payment; income from agency services fees amounted to RMB13.681 billion, representing an increase of 4.51% as compared with the previous year on the same statistical calibre, which was primarily attributable to the increase in income from agency distribution of insurance policies, securities brokerage for our subsidiaries and other agency businesses. The commissions from credit commitment and loan business amounted to RMB6.310 billion, representing a decrease of 7.30% as compared with the previous year, which was mainly attributable to the decrease in the fee income from our financial leasing business; the commissions from trust and other fiduciary activities amounted to RMB23.560 billion, representing an increase of 0.81% as compared with the previous year on the same statistical calibre.

Other net non-interest income amounted to RMB25.205 billion, representing an increase of 16.80% as compared with the previous year, of which, net investment income amounted to RMB14.048 billion, representing an increase of 24.02% as compared with the previous year, mainly due to the increase in gains on non-standardised bill investments and bond investments at fair value through profit or loss; net profit from fair value change amounted to RMB384 million, representing a decrease of 64.80% as compared with the previous year, which was mainly due to the decrease in the valuation of non-standardised bill investments at fair value through profit or loss; other income amounted to RMB5.791 billion, representing an increase of 34.21% as compared with the previous year, which was mainly due to the increase in the income from operating leases.

In terms of business segments, the net non-interest income from retail finance amounted to RMB47.951 billion, representing an increase of 10.93% as compared with the previous year and accounting for 49.59% of the Group's net non-interest income; the net non-interest income from wholesale finance amounted to RMB36.052 billion, representing an increase of 11.70% as compared with the previous year and accounting for 37.28% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB12.695 billion, representing an increase of 1.08% as compared with the previous year and accounting for 13.13% of the Group's net non-interest income.

(in millions of RMB)	2019	2018
Fee and commission income	**79,047**	73,046
Bank card fees	**19,551**	16,727
Settlement and clearing fees	**11,492**	10,267
Agency service fees	**13,681**	13,091
Commissions from credit commitment and loan business	**6,310**	6,807
Commissions on trust and fiduciary activities	**23,560**	23,370
Others	**4,453**	2,784
Less: fees and commission expense	**(7,554)**	(6,566)
Net fee and commission income	**71,493**	66,480
Other net non-interest income	**25,205**	21,580
Other net income	**23,482**	20,271
– Net profit from fair value change	**384**	1,091
– Net investment income	**14,048**	11,327
– Exchange gain	**3,259**	3,538
– Other income	**5,791**	4,315
Share of profits of associates and joint ventures	**1,723**	1,309
Total net non-interest income	**96,698**	88,060

Note: In 2019, the Group adjusted the statistical calibre of the breakdown items of fee and commission income, service fees for securities brokerage and investment services provided by its subsidiaries were adjusted from "others" to "agency service fees", the fund management fees of the subsidiaries were adjusted from "others" to "commissions on trust and fiduciary activities", and corresponding adjustments were made to the comparable figures of the previous year.

3.2.7 Operating expenses

In 2019, the Group's operating expenses amounted to RMB91.497 billion, representing an increase of 12.81% as compared with the previous year, among which staff costs increased by 11.76% and other general and administrative expenses increased by 14.37% as compared with the previous year. The cost-to-income ratio was 32.08%, representing an increase of 1.04 percentage points as compared with the previous year. The increase in operating expenses was primarily attributable to the Group strengthening its efforts to support the Fintech innovation, enhancing its technology-based capability, and increasing its investment in digital infrastructure and R&D talents. In order to transform and upgrade its business models and foster its ability to acquire customers by digital means and carry out digital operations for the whole business lines, the Group increased its investment in related business areas. In order to improve the outlets' brand image and service level, the Group increased investment in the upgrade of the hardware and software of its digital outlets. The Company's cost-to-income ratio was 32.53%, up by 1.30 percentage points as compared with the previous year.

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

(in millions of RMB)	2019	2018
Staff costs	51,439	46,025
Depreciation, amortisation and rental expenses	12,059	10,495
Taxes and surcharges	2,348	2,132
Other general and administrative expenses	25,406	22,214
Allowances for insurance claims	245	244
Total	91,497	81,110

3.2.8 Expected credit losses

In 2019, the expected credit losses of the Group were RMB61.066 billion, representing a year-on-year increase of 0.39%.

The following table sets forth, for the periods indicated, the principal components of expected credit losses of the Group.

(in millions of RMB)	2019	2018
Loans and advances to customers	54,214	59,252
Financial investments	6,481	1,176
Amounts due from banks and other financial institutions	(208)	(368)
Expected credit losses relating to financial guarantees and loan commitments	545	374
Other assets	34	395
Total expected credit losses	61,066	60,829

Expected credit losses of loans and advances to customers were the largest component of expected credit losses. In 2019, expected credit losses of loans and advances to customers of the Group were RMB54.214 billion, representing a year-on-year decrease of 8.50%. In 2019, the Group has, from a forward-looking perspective, increased the provision for its proprietary non-standardised corporate investments. 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 RMB7,417.240 billion, up by 9.95% from the end of the previous year, which was mainly attributable to the increase in loans and advances to customers and bond investments 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.

	31 December 2019		31 December 2018	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Total loans and advances to customers	4,500,199	60.67	3,941,844	58.43
Allowances for impairment losses on loans(1)	(222,899)	(3.00)	(191,895)	(2.84)
Net loans and advances to customers	4,277,300	57.67	3,749,949	55.59
Investment securities and other financial assets	1,839,440	24.80	1,714,490	25.42
Cash, precious metals and balances with the central bank	571,990	7.71	500,020	7.41
Inter-bank transactions(2)	522,507	7.04	612,957	9.08
Goodwill	9,954	0.13	9,954	0.15
Other assets(3)	196,049	2.65	158,359	2.35
Total assets	7,417,240	100.00	6,745,729	100.00

Notes:

(1) The "allowances for impairment losses on loans" as at the end of the year include the allowances for impairment losses of the principal and interest of the loans and advances to customers measured at amortised cost. The allowances for impairment losses of RMB341 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 22(a) to the financial statements.

(2) Including balances and placements with banks and other financial institutions and amounts held under resale agreements.

(3) Including fixed assets, 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 RMB4,490.650 billion, representing an increase of 14.18% as compared with the end of the previous year; total loans and advances to customers accounted for 60.54% of the total assets, representing an increase of 2.24 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.

	31 December 2019		31 December 2018	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Derivative financial assets	24,219	1.33	34,220	2.02
Investments at fair value through profit or loss [1]	398,276	21.89	330,302	19.48
– Bond investments	123,256	6.77	134,651	7.94
– Non-standardised credit asset investments	199,817	10.98	174,845	10.31
– Others[2]	75,203	4.14	20,806	1.23
Debt investments at amortised cost	907,472	49.88	903,268	53.28
– Bond investments	778,170	42.77	657,926	38.81
– Non-standardised credit asset investments	142,733	7.84	252,884	14.92
– Others	564	0.04	538	0.03
– Less: allowances for impairment losses	(13,995)	(0.77)	(8,080)	(0.48)
Debt investments at fair value through other comprehensive income	472,586	25.97	414,691	24.46
Equity investments designated at fair value through other comprehensive income	6,077	0.33	4,015	0.24
Investments in joint ventures and associates	10,784	0.60	8,871	0.52
Total investment securities and other financial assets	1,819,414	100.00	1,695,367	100.00

Notes:

(1) Beginning from the 2019 annual report, the Group will incorporate the coupon interest receivable of its investments measured at fair value through profit or loss in the fair value of its assets and disclose them together, and restate the comparable balance of the corresponding assets as at the end of the previous year.

(2) 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 60(f) to the financial statements.

	31 December 2019			31 December 2018		
		Fair value			Fair value	
(in millions of RMB)	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Interest rate derivatives	4,656,569	10,990	(10,724)	4,382,713	16,150	(14,812)
Currency derivatives	1,135,734	12,479	(11,756)	1,605,849	17,630	(21,321)
Other derivatives	130,219	750	(720)	116,624	440	(437)
Total	5,922,522	24,219	(23,200)	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 volume of the transactions that have not yet been due or completed on the balance sheet date, and does not represent the value at risk.

In 2019, the transaction volume of the bank-to-customer RMB exchange rate derivatives shrank by nearly 18% market-wide, nevertheless, the central bank reformed and improved the Loan Prime Rate (LPR) in August to further advance the marketisation of the RMB interest rate, boosting customers' demand for customised solutions for derivative transactions to cope with the risk of fluctuations in market interest rates. While continuing to provide its customers with derivative transaction services for exchange rate products, the Group gave full play to its professional edge in derivative transactions in the financial market, such as interest rate swaps, exploring for new derivative transaction services to the customers, and providing them with online transaction services, as a result of which the number of the wholesale customers and the transaction volume continued to grow.

Investments at fair value through profit or loss

As at the end of the reporting period, the balance of the investments at fair value through profit or loss amounted to RMB398.276 billion, with bond investments and non-standardised asset investments accounting for the main categories. Bond investments were made by the Group through analysis of fundamentals such as macroeconomic and monetary policy to grasp the trading opportunities in the bond market to increase investment income. For non-standardised asset investments, which are mainly non-standardised bills investments and part of the Group's bill asset structure, the Group is to gain investment returns by capturing the investment opportunities arising in the bill market based on its operational needs and the currency market development. For details, please refer to Note 23(a) to the financial statements.

Debt investments measured at amortised cost

As at the end of the reporting period, the balance of the Group's debt investments measured at amortised cost amounted to RMB907.472 billion. 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 and liquidity management, while taking into account the benefits and risks. For details, please refer to Note 23(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 RMB472.586 billion. During the reporting period, affected by the changes in the market environment, the interest rate of the RMB bond market underwent remarkable fluctuation, with the interest spreads on medium- and high-grade credit bonds narrowing sharply, and an increasing number of default events. The Group closely monitored market changes, had the duration of its RMB asset portfolio carefully maintained at a high level, captured opportunities arising at a particular period, and adjusted the existing portfolio structure in a timely manner by increasing the amount of higher-value assets such as treasury bonds, local bonds, and medium-and high-grade credit bonds, while deploying special credit audit teams aiming to optimise its asset structure and avoid credit risks. For details, please refer to Note 23(c) to the financial statements.

Equity investments designated at fair value through other comprehensive income

As at the end of the reporting period, the balance of equity investments designated at fair value through other comprehensive income of the Group amounted to RMB6.077 billion. Such investments were mainly non-trading equity investments held by the Group in the investees over whom the Group had no control, joint control or significant influence. For details, please refer to Note 23(d) to the financial statements.

The composition of the Group's total bond investments classified by the issuing entities(1)

(in millions of RMB)	31 December 2019	31 December 2018
Official authorities(2)	783,189	641,480
Policy banks	316,241	291,271
Commercial banks and other financial institutions	162,341	175,556
Others(2)	112,241	98,961
Total Bond investments	1,374,012	1,207,268

Notes:

(1) In 2019, the carrying amount of the investments measured at fair value through profit or loss included the interest receivable provided for using the effective interest rate method, and the comparables as at the end of 2018 have been adjusted accordingly.

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

Investments in joint ventures and associates

As at the end of the reporting period, the investments in joint ventures and associates of the Group were RMB10.784 billion, representing an increase of 21.56% as compared with the end of the previous year, which was mainly due to the increase in the profits of its joint ventures, i.e. CIGNA & CMB Life Insurance and Merchants Union Consumer Finance. As at the end of the reporting period, the balance of allowances for impairment losses on investments in joint ventures and associates of the Group was zero. For details, please refer to Notes 25 and 26 to the financial statements.

3.3.1.3 Goodwill

In compliance with the PRC enterprise accounting principles, at the end of 2019, the Group conducted an impairment test on the goodwill arising from the acquisition of CMB Wing Lung Bank, China Merchants Fund and other companies and determined that provision for impairment was not necessary for the current year. 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 RMB6,799.533 billion, representing an increase of 9.63% as compared with the end of the previous year, which was primarily attributable to the steady growth in deposits from customers and bond issuance during the reporting period.

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.

	31 December 2019		31 December 2018	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from customers	4,874,981	71.70	4,427,566	71.39
Inter-bank transactions(1)	784,735	11.54	752,917	12.14
Borrowings from the central bank	359,175	5.28	405,314	6.54
Financial liabilities at fair value through profit or loss and derivative financial liabilities	66,634	0.98	80,714	1.30
Debt securities issued	578,191	8.50	424,926	6.85
Others(2)	135,817	2.00	110,687	1.78
Total liabilities	6,799,533	100.00	6,202,124	100.00

Notes:

(1) Including deposits and placements from banks and other financial institutions and amounts sold under repurchase agreements.

(2) Including salaries and welfare payable, taxes payable, contract liabilities, lease liabilities, expected liabilities, 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 RMB4,844.422 billion, representing an increase of 10.08% as compared with the end of the previous year. Deposits from customers, accounting for 71.25% 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.

	31 December 2019		31 December 2018	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from corporate customers				
Demand	1,692,068	34.93	1,645,684	37.39
Time	1,346,033	27.79	1,192,037	27.09
Subtotal	3,038,101	62.72	2,837,721	64.48
Deposits from retail customers				
Demand	1,171,221	24.18	1,059,923	24.09
Time	635,100	13.10	503,030	11.43
Subtotal	1,806,321	37.28	1,562,953	35.52
Total deposits from customers	4,844,422	100.00	4,400,674	100.00

As at the end of the reporting period, the percentage of daily average balance per year of the demand deposits to that of the total deposits from customers of the Group was 57.99%, representing a decrease of 2.65 percentage points as compared with the previous year. Among which, the daily average balance per year of corporate demand deposits accounted for 54.10% of that of the corporate deposits, representing a decrease of 1.56 percentage points as compared with the previous year, and the daily average balance per year of retail demand deposits accounted for 64.92% of that of the retail deposits, representing a decrease of 5.22 percentage points as compared with the previous year. For the reasons for the decline in the percentage of the demand deposits, please refer to 3.9.1 "Proprietary deposits" in this chapter.

3.3.3 Shareholders' equity

As at the end of the reporting period, the shareholders' equity of the Group was RMB617.707 billion, representing an increase of 13.63% as compared with the end of the previous year, among which retained profits amounted to RMB321.610 billion, representing an increase of 17.22% as compared with the end of the previous year; investment revaluation reserve amounted to RMB8.919 billion, representing an increase of RMB3.387 billion as compared with the end of the previous year, mainly due to the increase in the valuation of bond investments, equity investments and bill assets measured at fair value through other comprehensive income.

3.4 Analysis of Loan Quality

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.

(in millions of RMB, except for percentages)	31 December 2019 Amount	31 December 2019 Percentage of the total (%)	31 December 2018 Amount	31 December 2018 Percentage of the total (%)
Normal	4,385,785	97.67	3,820,100	97.13
Special mention	52,590	1.17	59,329	1.51
Substandard	15,747	0.35	13,526	0.34
Doubtful	17,383	0.39	25,041	0.64
Loss	19,145	0.42	15,038	0.38
Total loans and advances to customers	4,490,650	100.00	3,933,034	100.00
Total non-performing loans	52,275	1.16	53,605	1.36

Note: 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. As at the end of the reporting period, both the balance and percentage of the Group's special-mention loans and non-performing loans recorded a decrease. Specifically, the balance of the special mention loans amounted to RMB52.590 billion, representing a decrease of RMB6.739 billion as compared with the end of the previous year; the percentage of special-mention loans was 1.17%, representing a decrease of 0.34 percentage point as compared with the end of the previous year. The balance of our non-performing loans amounted to RMB52.275 billion, representing a decrease of RMB1.330 billion as compared with the end of the previous year, with a non-performing loan ratio of 1.16%, a decrease of 0.20 percentage point as compared with the end of the previous year.

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

(in millions of RMB, except for percentages)	31 December 2019 Loan balance	31 December 2019 Percentage of the total (%)	31 December 2019 Non-performing loan	31 December 2019 Non-performing loan ratio (%)(1)	31 December 2018 Loan balance	31 December 2018 Percentage of the total (%)	31 December 2018 Non-performing loan	31 December 2018 Non-performing loan ratio (%)(1)
Corporate loans	1,901,994	42.35	35,070	1.84	1,773,929	45.10	37,758	2.13
Working capital loans	854,121	19.02	24,925	2.92	884,660	22.49	25,698	2.90
Fixed asset loans	559,580	12.46	4,491	0.80	470,521	11.97	5,067	1.08
Trade finance	192,750	4.29	819	0.42	157,093	3.99	2,465	1.57
Others(2)	295,543	6.58	4,835	1.64	261,655	6.65	4,528	1.73
Discounted bills(3)	226,040	5.04	19	0.01	149,766	3.81	–	–
Retail loans	2,362,616	52.61	17,186	0.73	2,009,339	51.09	15,847	0.79
Micro-finance loans	405,780	9.04	3,284	0.81	350,534	8.91	4,682	1.34
Residential mortgage loans	1,108,148	24.68	2,749	0.25	928,760	23.62	2,610	0.28
Credit card loans	671,099	14.94	9,033	1.35	575,490	14.63	6,392	1.11
Others(4)	177,589	3.95	2,120	1.19	154,555	3.93	2,163	1.40
Total loans and advances to customers	4,490,650	100.00	52,275	1.16	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 2019, the Group actively expanded its retail credit business and steadily provided housing mortgage loans for self-occupation purpose and credit card loans and actively supported the micro-finance loans to private companies, as a result of which, our asset quality was stable and controllable. As at the end of the reporting period, the proportion of retail loans increased by 1.52 percentage points to 52.61%; the non-performing retail loans amounted to RMB17.186 billion, up by RMB1.339 billion as compared with the end of the previous year; and the non-performing retail loan ratio was 0.73%, down by 0.06 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 1.35%, up by 0.24 percentage point as compared with the end of the previous year.

With regard to corporate loans, the Group steadily advanced the development of project financing and domestic trade financing businesses, resulting in stable and optimised asset quality. As at the end of the reporting period, the percentage of the Group's corporate loans dropped by 2.75 percentage points to 42.35%, while that of the fixed asset loans and trade financing recorded an increase; the non-performing ratio of our corporate loans was 1.84%, representing a decrease of 0.29 percentage point as compared with the end of the previous year, specifically, the non-performing amounts and non-performing ratios of the fixed asset loans and trade financing both recorded a decrease.

3.4.3 Distribution of loans and non-performing loans by industry

	31 December 2019				31 December 2018			
(in millions of RMB, except for percentages)	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)
Corporate loans	1,901,994	42.35	35,070	1.84	1,773,929	45.10	37,758	2.13
Property development	368,377	8.20	1,636	0.44	316,490	8.05	3,263	1.03
Transportation, storage and postal services	337,209	7.51	2,475	0.73	287,027	7.30	1,674	0.58
Manufacturing	261,711	5.83	15,943	6.09	282,543	7.18	18,760	6.64
Wholesale and retail	162,857	3.63	5,202	3.19	170,489	4.33	6,867	4.03
Production and supply of electric power, heat, gas and water	150,083	3.34	519	0.35	146,662	3.73	827	0.56
Leasing and commercial services	173,369	3.86	3,612	2.08	126,095	3.21	576	0.46
Finance	126,706	2.82	229	0.18	114,137	2.90	3	0.00
Construction	97,475	2.17	1,270	1.30	90,110	2.29	1,080	1.20
Information transmission, software and IT service	55,900	1.24	1,034	1.85	70,012	1.78	710	1.01
Water conservancy, environment and public utilities	58,263	1.30	270	0.46	55,916	1.42	294	0.53
Mining	39,189	0.87	2,084	5.32	37,545	0.95	3,019	8.04
Others(2)	70,855	1.58	796	1.12	76,903	1.96	685	0.89
Discounted bills	226,040	5.04	19	0.01	149,766	3.81	–	–
Retail loans	2,362,616	52.61	17,186	0.73	2,009,339	51.09	15,847	0.79
Total loans and advances to customers	4,490,650	100.00	52,275	1.16	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 2019, the Group closely followed the key national strategic plans and unwaveringly supported the development of the real economy by constantly intensifying the adjustment of its credit structure and actively redirecting resources to those major construction projects in the so-called "weakness-eliminating" fields such as the infrastructure, as well as the strategic emerging industries, advanced manufacturing industry and modern service industry, while dynamically adjusting its credit strategy in such key fields as the real estate industry, local government financing platforms, and industries that we have reduced or withdrawn from in line with the national macro industrial policies, and accelerating the reduction and withdrawal of loans granted to those customers with high risks such as the "zombie companies" and those with high leverage and overcapacity. During the reporting period, due to the effect of such factors as the downturn in the macro economy and defaults by certain major corporate customers, an increase in the non-performing ratio was recorded in certain industries, such as the leasing and commercial service industry, transportation, warehousing and postal services, information transmission, software and information technology services, etc..

3.4.4 Distribution of loans and non-performing loans by region

	31 December 2019				31 December 2018			
(in millions of RMB, except for percentages)	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]
Head Office[2]	740,664	16.49	11,209	1.51	650,128	16.53	6,567	1.01
Yangtze River Delta	903,754	20.13	8,574	0.95	793,637	20.18	10,334	1.30
Bohai Rim	567,997	12.65	7,092	1.25	503,588	12.80	8,708	1.73
Pearl River Delta and West Side of Taiwan Strait	773,445	17.22	7,093	0.92	667,011	16.96	7,009	1.05
North-eastern China	151,587	3.38	5,146	3.39	146,198	3.72	5,583	3.82
Central China	453,128	10.09	3,739	0.83	384,094	9.77	5,005	1.30
Western China	446,520	9.94	7,321	1.64	380,675	9.68	7,975	2.09
Overseas	139,341	3.10	276	0.20	123,337	3.13	456	0.37
Subsidiaries	314,214	7.00	1,825	0.58	284,366	7.23	1,968	0.69
Total loans and advances to customers	4,490,650	100.00	52,275	1.16	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 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, Pearl River Delta and West Side of Taiwan Strait and Western China showed increases, while the percentages of the balance of loans extended to other regions 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 0.50 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

(in millions of RMB, except for percentages)	31 December 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]
Credit loans	1,535,977	34.20	13,438	0.87	1,320,545	33.57	9,752	0.74
Guaranteed loans[2]	636,709	14.18	16,755	2.63	583,242	14.83	20,338	3.49
Collateralised loans	1,859,500	41.40	15,103	0.81	1,653,517	42.04	20,769	1.26
Pledged loans[2]	232,424	5.18	6,960	2.99	225,964	5.75	2,746	1.22
Discounted bills	226,040	5.04	19.00	0.01	149,766	3.81	–	–
Total loans and advances to customers	4,490,650	100.00	52,275	1.16	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) During the reporting period, for loans guaranteed with domestic letters of credit, domestic standby letters of credit and overseas standby letters of credit, the Group adjusted the type of guarantee from pledged to guaranteed, and adjusted the figures at the beginning of the year on the same statistical calibre.

As at the end of the reporting period, collateralised and pledged loans increased by 11.30% as compared with the beginning of the previous year; guaranteed loans increased by 9.17% as compared with the beginning of the previous year, and the credit loans increased by 16.31% as compared with the end of the previous year. The non-performing pledged loan ratio increased by 1.77 percentage points as compared with the beginning of the year due to the formation of non-performing loans in certain large-sized customers. The non-performing ratio of credit loans increased by 0.13 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

(in millions of RMB, except for percentages)

Top ten borrowers	Industry	Loan balance as at 31 December 2019	Percentage of net capital (under the Advanced Measurement Approach) (%)	Percentage of total loans (%)
A	Transportation, storage and postal services	31,100	4.34	0.69
B	Property development	16,650	2.33	0.37
C	Property development	12,761	1.78	0.28
D	Manufacturing	10,100	1.41	0.22
E	Finance	10,000	1.40	0.22
F	Transportation, storage and postal services	8,070	1.13	0.18
G	Finance	7,969	1.11	0.18
H	Transportation, storage and postal services	7,962	1.11	0.18
I	Property development	7,217	1.01	0.16
J	Mining	6,972	0.97	0.16
Total		**118,801**	**16.59**	**2.64**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB31.100 billion, representing 4.34% of the Group's net capital under the Advanced Measurement Approach. The loan balance of the top ten single borrowers totalled RMB118.801 billion, representing 16.59% of the Group's net capital under the Advanced Measurement Approach, 17.64% of the Group's net capital under the Weighted Approach, and 2.64% of the Group's total loan balance, respectively.

3.4.7 Distribution of loans by overdue term

(in millions of RMB, except for percentages)	31 December 2019		31 December 2018	
	Loan balance	Percentage of total loans (%)	Loan balance	Percentage of total loans (%)
Overdue within 3 months	**18,899**	**0.42**	19,731	0.50
Overdue from 3 months up to 1 year	**20,288**	**0.45**	16,447	0.42
Overdue from 1 year up to 3 years	**16,657**	**0.37**	19,130	0.49
Overdue more than 3 years	**7,519**	**0.17**	6,695	0.17
Total overdue loans	**63,363**	**1.41**	62,003	1.58
Total loans and advances to customers	**4,490,650**	**100.00**	3,933,034	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB63.363 billion, up by RMB1.360 billion from the end of the previous year and accounting for 1.41% of its total loans, representing a decrease of 0.17 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 36.17%; guaranteed loans accounted for 26.53%; credit loans accounted for 37.30% (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 1.18.

3.4.8 Restructured loans

(in millions of RMB, except for percentages)	31 December 2019		31 December 2018	
	Loan balance	Percentage of total loans (%)	Loan balance	Percentage of total loans (%)
Restructured loans (note)	**25,022**	**0.56**	22,766	0.58
Of which: restructured loans overdue more than 90 days	**19,255**	**0.43**	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 0.56%, down by 0.02 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 RMB942 million. After deducting the impairment allowances of RMB174 million, the net carrying value amounted to RMB768 million. The balance of repossessed financial instruments amounted to RMB1.518 billion.

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.

(in millions of RMB)	2019	2018
Balance as at the end of the previous year	**192,000**	150,432
Adjustment at the beginning of the period under the new financial instrument standard	N/A	1,088
Balance as at the beginning of the year	**192,000**	151,520
Charge/release for the period	**54,214**	59,252
Unwinding of discount on impaired loans and advances[note]	**(286)**	(307)
Recovery of loans and advances previously written off	**9,170**	7,453
Write-offs/disposal for the period	**(32,201)**	(26,197)
Foreign exchange rate movements	**200**	279
Balance at the end of the period	223,097	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 RMB223.097 billion, representing an increase of RMB31.097 billion as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 426.78%, representing an increase of 68.60 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.97%, representing an increase of 0.09 percentage point as compared with the end of the previous year.

3.5 Analysis of Capital Adequacy Ratio

As at the end of the reporting period, the capital adequacy ratio of the Group under the Advanced Measurement Approach was 15.54%, representing a decrease of 0.14 percentage point as compared with the end of the previous year, while the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Group under the Advanced Measurement Approach were 12.69% and 11.95%, respectively, representing an increase of 0.07 and 0.17 percentage point respectively, as compared with the end of the previous year.

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

The Group

(in millions of RMB, except for percentages)	31 December 2019	31 December 2018	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
Capital adequacy ratios under the Advanced Measurement Approach[1]			
Net core Tier 1 capital	550,339	482,340	14.10
Net Tier 1 capital	584,436	516,433	13.17
Net capital	715,925	641,881	11.54
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	3,863,760	3,530,424	9.44
Of which: Credit risk weighted assets	3,347,515	3,052,636	9.66
Market risk weighted assets	66,514	65,906	0.92
Operational risk weighted assets	449,731	411,882	9.19
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	4,606,786	4,092,890	12.56
Core Tier 1 capital adequacy ratio	11.95%	11.78%	Increased by 0.17 percentage point
Tier 1 capital adequacy ratio	12.69%	12.62%	Increased by 0.07 percentage point
Capital adequacy ratio	15.54%	15.68%	Decreased by 0.14 percentage point
Information on leverage ratio[2]			
Adjusted balance of on- and off-balance sheet assets	8,604,521	7,812,054	10.14
Leverage ratio	6.79%	6.61%	Increased by 0.18 percentage point

Notes:

(1) The "Advanced Measurement Approach" refers to the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the former CBRC on 7 June 2012 (same as below). In accordance with the requirements of the Advanced Measurement Approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include China Merchants Bank and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Company shall include all the domestic and overseas branches and sub-branches of China Merchants Bank. As at the end of the reporting period, the Group's subsidiaries for calculating its capital adequacy ratio included CMB Wing Lung Bank, CMB International Capital, CMB Financial Leasing, CMB Wealth Management and China Merchants Fund. During the parallel run period when the Advanced Measurement Approach 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 6.62%, 6.43% and 6.82% respectively as at the end of the third quarter of 2019, the end of the first half of 2019 and the end of the first quarter of 2019.

As at the end of the reporting period, the capital adequacy ratio of the Company under the Advanced Measurement Approach was 15.27%, representing a decrease of 0.25 percentage point as compared with the end of the previous year, while the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Company under the Advanced Measurement Approach were 12.23% and 11.48%, representing a decrease of 0.02 percentage point and an increase of 0.09 percentage point respectively, as compared with the end of the previous year.

The Company

(in millions of RMB, except for percentages)	31 December 2019	31 December 2018	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
Capital adequacy ratios under the Advanced Measurement Approach			
Net core Tier 1 capital	478,083	420,996	13.56
Net Tier 1 capital	509,336	452,449	12.57
Net capital	635,977	573,466	10.90
Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	3,426,517	3,142,192	9.05
Of which: Credit risk weighted assets	2,960,115	2,698,166	9.71
Market risk weighted assets	51,112	60,272	(15.20)
Operational risk weighted assets	415,290	383,754	8.22
Risk-weighted assets (taking into consideration the floor requirements during the parallel run period)	4,163,903	3,694,893	12.69
Core Tier 1 capital adequacy ratio	11.48%	11.39%	Increased by 0.09 percentage point
Tier 1 capital adequacy ratio	12.23%	12.25%	Decreased by 0.02 percentage point
Capital adequacy ratio	15.27%	15.52%	Decreased by 0.25 percentage point

As at the end of the reporting period, the capital adequacy ratio of the Group under the Weighted Approach was 13.02%, representing a decrease of 0.04 percentage point as compared with the end of the previous year; the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Group under the Weighted Approach were 11.30% and 10.64% respectively, representing an increase of 0.26 and 0.33 percentage point respectively, as compared with the end of the previous year.

The Group

(in millions of RMB, except for percentages)	31 December 2019	31 December 2018	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
Capital adequacy ratios under the Weighted Approach(note)			
Net core Tier 1 capital	550,339	482,340	14.10
Net Tier 1 capital	584,436	516,433	13.17
Net capital	673,366	611,025	10.20
Risk-weighted assets	5,170,500	4,677,967	10.53
Core Tier 1 capital adequacy ratio	10.64%	10.31%	Increased by 0.33 percentage point
Tier 1 capital adequacy ratio	11.30%	11.04%	Increased by 0.26 percentage point
Capital adequacy ratio	13.02%	13.06%	Decreased by 0.04 percentage point

Note: The "Weighted Approach" refers to the Weighted Approach for credit risk, the Standardised Measurement 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 of the Company under the Weighted Approach was 12.53%, representing a decrease of 0.13 percentage point as compared with the end of the previous year; the Tier 1 capital adequacy ratio and the core Tier 1 capital adequacy ratio of the Company under the Weighted Approach were 10.75% and 10.09% respectively, representing an increase of 0.20 and 0.27 percentage point respectively, as compared with the end of the previous year.

The Company

(in millions of RMB, except for percentages)	**31 December 2019**	31 December 2018	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
Capital adequacy ratios under the Weighted Approach			
Net core Tier 1 capital	**478,083**	420,996	13.56
Net Tier 1 capital	**509,336**	452,449	12.57
Net capital	**593,418**	542,610	9.36
Risk-weighted assets	**4,737,827**	4,286,653	10.53
Core Tier 1 capital adequacy ratio	**10.09%**	9.82%	Increased by 0.27 percentage point
Tier 1 capital adequacy ratio	**10.75%**	10.55%	Increased by 0.20 percentage point
Capital adequacy ratio	**12.53%**	12.66%	Decreased by 0.13 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. The balances of various risk exposures are as follows:

(in millions of RMB)	Type of risk exposure	Legal person	Group
Portion covered by the IRB approach	Financial institution	1,447,567	1,447,567
	Corporate	1,943,103	1,943,103
	Retail	3,028,344	3,028,344
	Of which: Residential mortgage exposures	1,101,367	1,101,367
	Qualified revolving retail	1,464,643	1,464,643
	Other retail	462,334	462,334
Portion not covered by the IRB approach	On-balance sheet	2,304,065	2,699,308
	Off-balance sheet	135,076	148,314
	Counterparty	12,843	21,784

Measurement of market risk capital

The Group uses mixed approaches to calculate its market risk capital. Specifically, it uses the Internal Model-based Approach to calculate the general market risk capital of the Company (excluding overseas branches), and uses the Standardised Measurement Approach to calculate the general market risk capital of overseas branches and affiliated companies of the Company as well as the specific market risk capital of the Company and its affiliated companies. As at the end of the reporting period, the market risk-weighted assets of the Group were RMB66.514 billion, and market risk capital requirement was RMB5.321 billion, of which the general market risk capital requirement calculated under the Internal Model-based Approach was RMB2.670 billion, and the market risk capital requirement calculated under the Standardised Measurement Approach was RMB2.651 billion.

The Group's market risk capital under the Internal Model-based 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:

(in millions of RMB)

No.	Item	Distressed risk value during the reporting period	General risk value during the reporting period
1	Average value	604	200
2	Maximum value	1,001	278
3	Minimum value	405	133
4	Value at the end of the period	597	161

3.6 Results of Operating Segments

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

Items (in millions of RMB)	2019 Profit before tax by business segments	2019 Net operating income	2018 Profit before tax by business segments	2018 Net operating income
Retail finance	66,417	144,716	58,263	125,843
Wholesale finance	46,431	111,832	39,914	109,295
Other businesses	4,284	13,240	8,320	13,306
Total	117,132	269,788	106,497	248,444

During the reporting period, the percentage of profit from retail finance of the Group increased. Profit before tax amounted to RMB66.417 billion, up by 14.00% from the previous year, accounting for 56.70% of the profit before tax of the Group, representing a year-on-year increase of 1.99 percentage points; net operating income amounted to RMB144.716 billion, up by 15.00% from the previous year, accounting for 53.64% of the net operating income of the Group, representing a year-on-year increase of 2.99 percentage points. At the same time, the cost-to-income ratio of retail finance business was 33.74%, representing a decrease of 1.73 percentage points as compared with the previous year.

For details of the Group's business and geographical segments, please refer to Note 56 to the financial statements.

3.7 Other Financial Disclosures under 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. Among which, the credit commitment is the primary component. As at the end of the reporting period, the balance of credit commitments of the Group was RMB1,779.313 billion. For details of the contingent liabilities and commitments, please refer to Note 58 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 Implementation of Business Development Strategies

During the reporting period, the Company adhered to the development strategy of "Light-operation Bank" and the 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 exploration of its business model towards stage 3.0 based on the advantages in structure and quality achieved in stage 2.0.

During the reporting period, the information technology expenses of the Company amounted to RMB9.361 billion, representing a year-on-year increase of 43.97%, and the ratio of which to the Company's net operating income was 3.72%. As at the end of the reporting period, the Bank declared a total of 2,260 Fintech innovation projects, with 1,611 projects approved, of which 957 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 business model 3.0.

1. Reshape the digital retail finance system under the guidance of the "North Star" Metric MAU.

The first is digital customer acquisition. We used the CMB APP and CMB Life APP as the platforms to explore and build the digital customer acquisition model and secure new growth drivers in 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. As at the end of the reporting period, the aggregate number of users of CMB APP amounted to 114,000,000, with the percentage of debit card customer acquired through digital channel reaching 24.96%[2]; the aggregate number of users of the CMB Life APP amounted to 91,264,300, with the percentage of digital acquisition of credit card customers reaching 64.32%.

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 102,000,000, representing an increase of 25.58% compared with the end of the previous year, which made these two APPs our major platforms for customer operation. Firstly, we further enhanced the efficiency of financial services based on digital operations. During the reporting period, the wealth management transaction via the CMB APP amounted to RMB7.87 trillion, up by 25.72% year-on-year, and accounting for 71.52% of the Bank's wealth management transaction. Wealth management customers using CMB APP amounted to 7,620,900, up by 50.17% year-on-year, and accounted for 89.96% of the Bank's total number of wealth management customers. 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 6.093 billion, with a monthly average logins of 11.82. 44 of our branches have opened the City Zones (城市專區), and 1,403 of our outlets have opened their online stores. Meanwhile, we actively explored effective methods for operation of retail customers with online and centralised models, covering 4,690,000 Golden Card Holder customers and Sunflower customers. Thirdly, through the opening of the platforms, the Company constantly improved the efficiency of service innovation. By opening the APP platforms internally, all our branches can quickly provide new services by developing applets on the CMB APP, and by opening the API (Application Programming Interface) to our partners externally and focusing on key scenarios such as meal tickets, movie tickets, transportation, and handy services for the public, etc., the boundary of service was further expanded. During the reporting period, the CMB APP and the CMB Life APP had over 10 million MAUs engaging in 16 scenarios; the use rates of the financial scenario and non-financial scenario[3] of the CMB APP were 83.79% and 69.80%, respectively, and the use rates of the financial scenario and non-financial scenario of the CMB Life APP were 76.21% and 73.90%, respectively.

The third is digital risk control. We have 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 8/10,000,000. It intercepted 80,000 telecom fraud transactions with an amount of more than RMB1.8 billion, providing strong protection of the capital of our customers.

2 In 2019, the Company optimised the calculation calibre for the percentage of debit card customer acquisition through digital channel. The percentage of debit card customer acquired through digital channel under the same calibre was 18.60% in 2018.

3 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. Therefore, the sum of the use rate of the two types of scenarios is greater than 100%.

2. Reshape the wholesale business specialised service system from an ecological perspective.

First, we continuously improved the hierarchical and classified customer operation system. We deepened the understanding of regional markets, advantageous industries and high-quality customers, focused on core customers, implemented the "direct operation + industry franchise" model, and built a hierarchical and classified customer operation system. We rendered coordinated services for strategic customers, institutional customers, financial institution customers, and small- and medium-sized customers in the supply chain, and fully improved the customer service experience in terms of credit strategy, product strategy, service strategy, and resource allocation.

Second, we strengthened our professional service capabilities through digital transformation. Firstly, we strengthened the construction of the digital operation platform. We relied on the CMB Corporate APP to build an open all-scenario mobile service platform for corporate users. As at the end of the reporting period, the number of CMB Corporate APP customers amounted to 1,000,800, representing an increase of 87.45% compared with the end of the previous year, with 426,500 MAUs, representing an increase of 136.68% compared with the end of the previous year under the same statistical calibre. We built a unified digital platform for corporate customers – CMB Open Platform, exploring ways to support the transformation of business models with standardised and modularised services, while responding quickly to customers' needs. Secondly, we achieved the online migration of the wholesale financial products. We continued to advance the online processing of the bill business. During the reporting period, the business volume of online bill discounting amounted to RMB300.623 billion, representing a year-on-year increase of 46.02%, with 13,509 online bill discounting customers, representing a year-on-year increase of 48.29%. Among them, small-, medium- and micro-sized enterprise customers accounted for 92%, indicating a continuous improvement in our digital inclusive financial service capability. Thirdly, we enhanced our digital risk control capabilities. We 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 judicial disputes, risk transmission, risk-related public opinion, financing of small loan companies, policy interpretation, data quality inspection, credit approval and authorisation. We also built an intelligent pre-warning system for corporate customers which is based on the machine learning algorithm. As at the end of the reporting period, the accuracy ratio of wholesale intelligent rating and pre-warning continued to improve. The accuracy ratio of the intelligent rating system for corporate customers was 52.60% higher than the traditional rating, and the accuracy ratio of pre-warnings on the corporate customers with potential risks reached 75%.

Third, we achieved ecological operations by leveraging the industrial Internet. We 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 settlement model for internal accounts on the B2B platform. During the reporting period, the comprehensive settlement solution "Cloud Bill" has served 5,766 corporate customers, with a transaction volume of RMB287.271 billion; the aggregated collection business focused on the four major scenarios, i.e. insurance, medicine, education and fast consumption. The number of transactions reached 502 million with a total volume of RMB146.647 billion, representing a year-on-year increase of 267.51%.

3. Continue to create a bank offering best customer experience by taking process optimisation as the starting point.

All retail and wholesale lines of the Company have established professional user experience teams, with "creating values for customers" as the starting point to promote the improvement of customer experience. During the reporting period, the Company, on one hand, reconstructed the retail customer experience monitoring system. The wind chime system version 1.0 went online to connect to 20 internal systems, monitoring 923 customer experience indicators, achieving the real-time monitoring and digital presentation of retail customer experience and preliminarily constructing the experience vane and service upgrading engine for retail customers. Digital processing was realised in the entire approving process of retail credit loans , with a year-on-year reduction of 20% in the approval time of the approval centre. We adopted the "End-to-End Customer Journey Methodology (端到端客戶旅程方法論)", focusing on reshaping the entire process experience with respect to retail customers' first business journey, MGM (Member Get a Member) journey, payroll service journey, and credit card bill installment journey, with significant improvements. The first business journey project shortened the total time for retail customers to open an account at an outlet by approximately 25%. For the MGM journey, we focused on solving the weakness of "multiple process breakpoints (流程斷點多)". The monthly average number of users participating in referrals doubled, and the monthly average number of users who accepted referrals and successfully opened accounts increased by 30%, with a significant improvement in customer acquisition. For the payroll journey, we reduced the service contracting process from 17 to 5 steps, greatly improving the process efficiency. After the credit card billing installment journey was optimised, customer satisfaction increased by 15%. On the other hand, we comprehensively diagnosed the business journey of key corporate customers, continuously promoted online processing of approval, risk, compliance and operation, and continued to advance the reshaping of various service processes. Deposit collection supported the autonomous completion of relationship managers' mobile ends on a 7 × 24 hours basis. Full-process online credit authorisation and inquiry were realised. The time required for the full process of inquiry was shortened from about one week to only 5 minutes at shortest. The time required for the full process of withdrawal under high-frequency business credit such as banks acceptance, working capital loans and letters of guarantee was reduced by 37% compared with the previous year. We established a number of offline corporate customer Fintech experience centres across the country, providing customers with the online operation experience environment for 38 corporate products.

4. Constantly enhance the basic technology capabilities 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 digital infrastructure based on Cloud computing technology. During the reporting period, the total deployment of X86 servers increased by 60.67% year-on-year. With the expanded application of a new generation of PaaS (Platform as a Service) platform, the percentage of Cloud migration of the applications across the Bank reached 44%. At the same time, we continuously enhanced its capability of open banking. The "Open API Platform" for the Bank's unified external services supported secure and fast output of APIs, serving different scenarios such as financial payment, AI, intelligent parking, and intelligent medical care. We empowered 629 cooperative companies. 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 9.8PB, with the data in the lake increasing by 68% compared with the previous year. Based on the integration of internal and external data, the Company expanded the research and application of AI technology, established three major AI cloud services, i.e. intelligent customer service, risk-related public opinion and computer visualisation, and launched three major AI solutions: i.e. knowledge management, digital marketing and risk management, to support the intelligent development of our businesses. In terms of the blockchain, the Company improved and developed standard sub-chain and BaaS (Blockchain as a Service) platform ecology, with a total of 25 applications. At the same time, the Company continued to deepen the integration of businesses and technologies, and fully advanced the transformation of the value-driven lean R&D. As at the end of the reporting period, more than 60% of the technology teams have formed cross-functional teams with the business department, thereby achieving lean and agile transformation and continuously improving the quality and speed of delivery.

5. Optimise the organisational structure and cultural atmosphere by focusing on removing inherent barriers, empowering frontlines and reducing burden on grassroots.

Relying on the "Egg Shell (蛋殼)" platform of our internal forum, we continued to build a cultural atmosphere of "openness, integration, equality and inclusiveness". During the reporting period, a total of 1,263 opinions and suggestions on the "Egg Shell" platform were adopted, with an adoption rate reaching 29%. Through the special action of "removing inherent barriers, empowering frontlines and reducing burden on grassroots (打破豎井、賦能減負)", we rectified the defect of "large-sized enterprises", removed systematic and business barriers, said no to formalism, and empowered frontline employees and reduced their burdens. We refined the corporate culture into a code of action, introduced the "Simple Work Style" proposal, including ten work styles such as "do the right thing, whether it is in your KPI or not", and guided all members to form a cultural consensus.

3.9 Changes in External Environment and Corresponding Measures

3.9.1 Impacts of changes in operating environment and key business concerns

1. Net interest margin

In 2019, the net interest margin of the Company was 2.65%, representing an increase of 1 basis point year-on-year. The net interest margin for the whole year showed a trend of high to low, mainly because the Company seized the opportunities of asset investment at the beginning of the year and increased credit assets, especially increasing the granting of high-yield retail loans. Meanwhile, the PBOC reduced the deposit reserve ratio three times. The Company's deposits with the central bank accounted for a smaller proportion of interest-earning assets, and the asset structure was further optimised, driving the net interest margin to rise steadily. However, due to the downturn in real economy and weak corporate financing needs, loan yields declined during the year. Meanwhile, in order to accept the wealth management funds due to customers, the Company took the initiative to moderately increase the supply of deposit products with relatively high costs such as structured deposits and large-denomination certificates of deposit in the second half of the year. The cost of liabilities increased, leading to a decline in net interest margin.

Looking forward into 2020, the net interest margin of the Company will remain under pressure. On the one hand, the domestic economic growth will continue to face downward pressure. Together with the impact of the COVID-19 pandemic, the macroeconomic and financial situation can hardly be optimistic. At the same time, the loan prime rate (LPR) will continue to advance, pushing forward the domestic interest rate marketisation steadily. It is expected that the interest rate will further move downwards, and the asset pricing of commercial banks will face some downward pressure. On the other hand, the competition for deposits is expected to remain fierce. Meanwhile, under the influence of the continued awakening of customers' investment consciousness, the cost of deposits will still face rigid upward pressure. To cope with the downward pressure on the net interest margin, the Company will continue to strengthen its evaluation on the macro situation and policies, reinforce the forward-looking and flexible management of assets and liabilities and constantly optimise the asset-liability structure. On the asset side, we will maintain the steady growth of credit assets. On the liability side, we will insist on focusing on the growth of low-cost core deposits, and strengthen the control over the limits of deposits with relatively high costs such as structured deposits and large-denomination certificates of deposit. Meanwhile, the Company will also further improve its risk pricing management capabilities. Through the above measures, the Company strives to maintain the net interest margin at a better level in the industry.

2. Loan prime rate (LPR)

The loan prime rate (LPR) reform is an important measure for China to deepen the reform of interest rate marketisation and carry forward the "unification of interest rates", which will have an important impact on the Company's loan pricing, interest rate risk management and net interest income. First, loan pricing has become more market-oriented. Under the new quotation mechanism and pricing method, LPR has gradually strengthened its role in guiding the pricing of newly granted loans. Loan pricing is more closely linked to market interest rates, which poses a great challenge to the comprehensive pricing capabilities of banks. Second, the difficulty in managing interest rate risks has increased. Subsequent loan business will gradually be based on market-oriented interest rates. Different benchmarks for deposit and loan pricing will lead to increased benchmark risks and a shift in exposure. At the same time, the volatility of loan interest rates and net interest margin will increase. Third, net interest income is facing downward pressure. Taking into account the domestic and international macroeconomic situation, it is expected that LPR will continue to decline in 2020, driving loan pricing downwards, which will have a certain negative impact on the Company's loan interest income.

At present, the Company has used the LPR benchmark in all newly granted RMB general loan businesses (including corporate loans and retail loans). In the fourth quarter of 2019, the percentage of the Company's newly granted RMB general loans priced with reference to the LPR benchmark was 91.72%, and the central bank's guidance target has been completed in advance.

After shifting the loan pricing benchmark from the existing floating rate to the LPR, the transmission of market interest rates to credit rates will be smoother, and the fluctuation of loan interest rates will also increase, which will bring more difficult challenges to the management of interest rate risks. The Company has made full preparations for the rise in the interest rate risk level brought by the unification of interest rates, and timely adjusted the direction and intensity of the measure for the active management of interest rate risks. It is expected that the overall interest rate risk will be controllable in the future.

3. Net non-interest income

During the reporting period, the Company realised net non-interest income of RMB84.194 billion, representing a year-on-year increase of 8.03%, which accounted for 33.49% of the net operating income of the Company, up by 0.16 percentage point year-on-year. The growth in net non-interest income was mainly explained by the followings: firstly, benefiting from the continuous increase in the total wealth of residents and the demand for wealth management, income from the wealth management business such as agency distribution of insurance policies and agency sale of trusts grew satisfactorily; secondly, in line with the development trend of consumer finance and mobile payment, credit card business income and electronic payment income grew steadily; thirdly, we seized the opportunity to expand the bond underwriting and bill businesses during the period when market interest rates trended down, bond underwriting income and bills sell-off spread income grew satisfactorily.

During the reporting period, against the backdrop of a decline in macroeconomic growth, the complex and repeated trade frictions between China and the United States, and the continued advancement of the transformation of asset management, the Company still maintained its strategic focus, accelerated customer expansion and in-depth operations, and continuously improved its asset allocation capabilities and service efficiency so as to drive the steady growth of fee and commission income. During the reporting period, the Company recorded fee and commission income of RMB72.866 billion, representing a year-on-year increase of 7.90%. For key projects, the Company's fee and commission income from wealth management amounted to RMB23.972 billion, representing a year-on-year decrease of 4.67% (of which: income from agency distribution of trust schemes amounted to RMB6.774 billion, up by 13.13% year-on-year, which mainly benefited from the customer base advantage and leading product creation capabilities of the Company; income from entrusted wealth management services amounted to RMB6.558 billion, down by 14.18% year-on-year, which was mainly due to the impact of New Regulation on Asset Management; income from agency distribution of insurance policies amounted to RMB5.790 billion, up by 22.00% year-on-year, which was mainly due to the overall recovery of the insurance industry and the gradual appearance of the effect of the transformation of regular premium plan in the insurance business; income from agency distribution of funds amounted to RMB4.730 billion, down by 29.06% year-on-year, which was mainly due to an increase in the year-on-year base amount resulting from the optimisation and improvement of the accrual accounting of the Company's income from agency distribution of funds in 2018; and income from agency distribution of precious metals amounted to RMB120 million, up by 16.50% year-on-year). Income from bank card fees amounted to RMB19.446 billion, up by 16.98% year-on-year; income from settlement and clearing fees amounted to RMB11.461 billion, up by 11.91% year-on-year; custodian fee income amounted to RMB3.605 billion, down by 18.79% year-on-year, which was mainly due to a decline in the overall custody fee rate in the market.

In 2020, affected by factors such as a declining macroeconomy and the further advancement of the structural readjustment, the growth of non-interest net income of the banking industry will still face with many challenges. The Company will adhere to stable operation, focusing on the two major growth drivers of customers and technologies, and proactively promote the formation of new business models and the further optimisation of the business structure, actively tap potential businesses to increase revenue, and facilitate the development of non-interest business. Firstly, we will consolidate the advantages of the retail business, with the agency distribution of mutual funds and the agency distribution of insurance policies as the main growth drivers, and rely on online and digital transformation to foster product allocation concepts and increase the revenue from customers. Meanwhile, we will grasp the development pace of the credit card business, balance the growth of risks and scale, actively adjust and optimise the asset structure, and increase customer stickiness and transaction frequency through in-depth operations. Secondly, through building a systematic business model of wholesale customers, products and risk management, we will improve our customer operating capabilities and service efficiency, accelerate the online transformation of the Company's products, optimise the business structure, and achieve the restorative growth of non-interest income from wholesale business such as transaction banking, asset management, asset custody, and investment banking.

4. Proprietary deposits

In 2019, although the growth rate of the broad measure of money supply (M2) improved marginally, it was still at a low level in recent years, and the year-on-year growth rate of deposits of financial institutions was only slightly higher than the previous year by 0.76 percentage point. In 2019, the balance of the Company's proprietary deposits increased by 9.96% over the end of the previous year, and the growth rate increased by 1.70 percentage points over the end of the previous year. This was mainly due to two reasons: firstly, the Company continued to promote low-cost general deposit growth by increasing customer base expansion and strengthening the optimisation of the deposit structure; secondly, while maintaining a relatively high level of net interest margin, the Company moderately increased the supply of deposit products such as structured deposits and large-denomination certificates of deposit, and actively diverted customer funds, increasing the Company's deposit market share.

In 2019, demand deposits accounted for 59.06% of the daily average balance per year of the Company's customer deposits, a year-on-year decrease of 2.50 percentage points. The main reasons included: firstly, due to insufficient medium- and long-term financing needs of enterprises, a decline in deposit derivation, the weakening of capital needs in capital-intensive industries, and the insufficient activation of corporate funds, the growth of corporate demand deposits slowed down; secondly, due to the gradual implementation of the New Regulation on Asset Management, part of the wealth management funds due were taken over by time deposits such as structured deposits and large-denomination certificates of deposit, which led to the increase of retail time deposits being higher than that of demand deposits.

In 2020, macroeconomic operation will still face downward pressure. The Company expects that it will still face the challenges of fierce competition from peers in deposit growth and the rigid increase in deposit costs. Under such circumstance, the Company will adhere to the dominant position of low-cost core deposits and strive to maintain a relatively high percentage of demand deposits; strengthen the management of the pricing of deposit products, and enhance the quota control over high-cost active liabilities so as to maintain their percentage in proprietary deposits at a desirable level. Meanwhile, we will fully explore the favourable conditions for abundant market capital, reasonably arrange active liabilities with a higher degree of marketisation in addition to proprietary deposits, and further enrich the source of liabilities. Through the above measures, the Company expects that proprietary deposits will maintain a steady growth, and to a certain extent, alleviate the upward pressure on deposit costs.

5. Investment of loans

In terms of retail loans, the Company continued to increase the granting of retail loans in 2019, with retail loans maintaining a good growth trend. Retail loans totaled RMB2,327.955 billion, an increase of RMB340.368 billion or 17.12% over the end of the previous year, and accounted for 55.73% of the Company's total loans and advances, an increase of 1.30 percentage points over the end of the previous year. In terms of mortgage loans, the Company seized the business opportunity of personal housing mortgage loans in the first half of the year, appropriately accelerated the pace of granting, and increased the allocation of credit lines, thus supporting residents' reasonable need for home ownership. In terms of retail micro-finance loans, the Company actively responded to national policies and regulatory requirements, vigorously supported the development of the real economy. In particular, guided by inclusive finance, it vigorously supported the development of the retail micro-finance loan business.

In terms of corporate loans, the growth rate of corporate loans in 2019 had slowed down slightly from the previous year. This was mainly because amidst the current economic downturn, enterprises were not eager to expand business, and financing needs were relatively insufficient. In order to meet the challenge of insufficient effective credit demand, on the one hand, the Company continued to optimise the business structure of corporate loans, increased the corporate project financing reserves, and moderately increased the promotion of medium- and long-term financing projects. On the other hand, provided that regional and industry risks were controllable, the Company seized market opportunities such as the shift in driving forces and supply chain finance, made full use of the inclusive financial evaluation subsidy policy, and increased the promotion of the corporate small-finance loan business.

In terms of inclusive finance, the Company continued to promote inclusive finance business. As at the end of the reporting period, the balance of the Company's inclusive corporate small-finance loans[4] was RMB453.329 billion, representing an increase of RMB60.154 billion or 15.30% compared with the end of the previous year, achieving the target of "increase in both total loans and number of loan customers, and control of both loan quality and overall costs" as requested by CBIRC. It was expected that the Company could continue to enjoy preferential policies such as exemption on VAT for corporate small-finance loans and targeted statutory deposit reserve ratio cuts. However, this would ultimately depend on the review and approval of the relevant regulatory authorities.

In 2020, the macroeconomy is still facing downward pressure, and the effective demand of enterprises is still insufficient. Together with the impact of the COVID-19 pandemic and the advancement of interest rate marketisation, the granting of loans will still be faced with challenges. To overcome the above challenges, so far as the investment target of the loan business is concerned, the Company will rationally formulate mortgage loan and corporate mortgage loan growth plans to effectively manage and control the concentration of loans in the real estate industry. It will encourage investment in non-real estate industries, and grasp market opportunities such as the shift in driving forces and supply chain finance, and increase the granting of loans to advanced manufacturing industries and strategic emerging industries. Meanwhile, provided that risks are controllable, the Company will actively meet the effective financing needs of small- and micro-sized enterprises and private enterprises, and continuously optimise the existing loan business structure. Through the above efforts, the Company will strive to maintain the steady growth of credit assets, with the Annual incremental ratio of corporate loans and retail credit remaining stable as compared to 2019.

[4] 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 appraisal calibre of "increase in both total loans and number of loan customers, and control of both loan quality and overall costs" of CBIRC, which is the full-scale RMB domestic calibre, including bill financing.

6. Asset management business

Since the implementation of the New Regulation on Asset Management, the Company has actively adapted to the requirements of the new regulatory regulations and supporting policies, actively promoted the transformation of the asset management business, and accelerated preparations for the establishment of CMB Wealth Management Company Limited. On 5 November 2019, the Company's wholly-owned subsidiary, CMB Wealth Management, officially came into operation. CMB Wealth Management will serve the strategic positioning of "One Body with Two Wings" of the Company, and is committed to meeting the needs of investors in preserving and increasing their wealth, and will leverage the independent legal person advantages of the asset management business with the vision of becoming "a domestically and internationally leading comprehensive asset management organisation" and a focus on improving the seven major capabilities of product design, investment research, asset investment, product sales, risk management, financial technology, and group collaboration.

The Company believes that since 2019, a series of policies supporting the New Regulation on Asset Management have played an important role in guiding, standardising and leading the healthy development of the asset management business, and are conducive to creating a healthy and stable market environment. The majority of the Company's existing non-standardised assets will expire in the transition period. Meanwhile, the Company will also actively follow the regulatory guidance to continue to steadily promote the transformation of wealth management products. The Company focused on the five major product lines of cash management, fixed income, multi-assets, stocks, alternative and other products to build a product line that covers the entire customer base. It is expected that the scale of wealth management products will maintain steady growth in 2020, and income from entrusted wealth management services will remain stable. For other details of the asset management business, please refer to 3.10.2 "Asset management business" in this chapter.

7. 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 1.21%, representing a decrease of 0.20 percentage point as compared with the end of the previous year, while the proportion of special-mentioned loans in total loans was 1.18%, down by 0.38 percentage point from the end of the previous year; the proportion of overdue loans in total loans was 1.46%, down by 0.19 percentage point from the end of the previous year. The allowance coverage ratio of non-performing loans was 430.02%, representing an increase of 66.81 percentage points as compared with the end of the previous year. The loan allowance ratio was 5.19%, up by 0.05 percentage point from the end of the previous year. The credit cost ratio was 1.34%, representing a year-on-year decrease of 0.34 percentage point. The risk exposure was generally stable.

During the reporting period, affected by rising credit card risks, both the formation amounts and formation ratios of the Company increased. Overall, in 2019, the Company recorded new non-performing loans formed of RMB44.215 billion, representing a year-on-year increase of RMB8.937 billion, with a formation ratio of non-performing loans of 1.13%, up by 0.12 percentage point year-on-year. In terms of business category, the formation amounts and formation ratios of non-performing credit cards increased. The formation amounts and formation ratios of non-performing corporate loans increased slightly and remained unchanged, respectively, 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, Central China, Pearl River Delta, and West Side of Taiwan Strait increased, while those in Bohai Rim, Yangtze River Delta, overseas regions and Northeastern China fell. 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. From the perspective of customer base, the formation amounts and formation ratios of non-performing loans to the large-sized enterprises increased, while those to the medium- and small-sized enterprises fell.

During the reporting period, the Company continued to strengthen the disposal of non-performing loans, taking various approaches to reduce and dispose of risk assets. In 2019, the Company disposed of non-performing loans amounting to RMB45.663 billion, of which RMB25.431 billion was written off in a normal way, RMB10.403 billion was recovered by collection, RMB6.326 billion was securitised as non-performing assets, and RMB3.503 billion was disposed of by repossession, assignment, restructuring, upward migration, remission and other means.

In 2019, the Company continued to accelerate the process of securitisation of the non-performing assets with an efficient and well-established asset securitisation operation mechanism. During the reporting period, the Company launched five securitisation projects, and disposed of non-performing assets with principal value in aggregate of RMB6.326 billion, and the nominal value of securities issued amounted to RMB835 million. The Company holds 5% of each tranche of such securities in accordance with regulatory requirements. The remaining portion of 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 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 2020, the macroeconomic and financial situation will become more complex and changeable. Together with the impact of COVID-19 pandemic, the Company's asset quality management will be faced with challenges. In this regard, the Company will strengthen the pre-judgment of risk evolution trends, enhance industry and customer research capabilities, strengthen scientific and technological empowerment, adjust the customer structure and the business structure, optimise the credit access standards, and reinforce full life cycle process management such as risk pre-warning, effectively dispose of non-performing assets, strive to maintain stable asset quality, consolidate the results of risk management and further increase the level of risk management.

8. Asset quality in key areas

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

Risk management and control for consumer credit business

Being confronted with an overall rise in risks in the entire consumer finance industry, the Company adhered to a prudent risk appetite and a stable risk strategy, persisted in value customer orientation, actively paid attention to changes in external risk trends. The Company has prejudged joint debt risks since 2017, and rationally arranged business investment and growth strategies, and continuously adjusted and optimised its customer base and asset structure and allocation. The Company comprehensively adopted various risk control measures, improved the comprehensive credit management system characterised by "classified operation and unified management" for customers, strengthened the pre-warning of risky customers, expanded collection resources, enhanced post-lending collection, and increased its efforts in disposal such as the securitisation and writing-off of non-performing assets. The Company continued to advance the construction of scientific and technological risk control, optimised the iteration of risk prevention models, regularly conducted joint debt risk monitoring and investigation, and deployed and dynamically optimised risk strategy linking measures. As at the end of the reporting period, the non-performing loan ratio of credit card loans was 1.35%, an increase of 0.24 percentage point over the end of the previous year; and the non-performing loan ratio of personal consumption loans was 1.18%, an increase of 0.05 percentage point over the end of the previous year. From a short-term perspective, the industry is still in a period of risk release. Together with the impact of the COVID-19 pandemic, the quality of the Company's consumer credit assets will still face pressure. However, from a long-term perspective, the Company has a prime customer base. The crossover with the joint debt risk customer base is mainly concentrated in a small number of subordinated customers, with a limited size. The quality of assets will remain relatively stable.

Risk management and control for 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 optimised its internal credit policy in a dynamic manner according to the policies on adjustments to the real estate industry, regulatory requirements and industrial developments in active response to the guidance of national policy in accordance with the overall strategy of "steady granting, structural adjustment, quota management". 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 RMB508.331 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 RMB23.784 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 RMB284.263 billion, representing an increase of RMB39.142 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 6.81% of the total loans and advances granted by the Company, up by 0.10 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 0.36%, down by 0.73 percentage point as compared with the end of the previous year. In 2019, policies on financing for real estate enterprises were tightened. It is expected that in 2020, some real estate enterprises with high costs and high leverage will face an increase in financial pressure to a certain extent. 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.

Risk management and control for local government financing platform business

The Company strictly implemented legal procedures and adhered to legal and compliant operations in accordance with the State's requirements to 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. The Company upheld the overall principle of "supporting preferential clients in selective areas in compliance with regulatory requirements and through quota management", focused on supporting construction projects included in Guangdong-Hong Kong-Macau Greater Bay Area, regional economic integration in the Yangtze River Delta and other key planning regions, carefully selected its business based on the degree of the coverage of its own debts by the operating cash flow of projects and customers, actively participated in the underwriting of and investment in local government bonds, enhanced quota management on full statistical calibres, 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 RMB256.208 billion (including businesses such as actual and contingent credit, bond investments, proprietary investments and fund investments of wealth management products), representing a decrease of RMB24.777 billion as compared with the end of the previous year. Included therein was the balance of loans on balance sheet which amounted to RMB106.175 billion, representing an increase of RMB3.789 billion as compared with the end of the previous year, and accounted for 2.54% of the total loans and advances granted by the Company, down by 0.26 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 2020.

Risk management and control for industries that we have reduced or withdrawn from

For the 16 industries[5] 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 industry classification management, raised its entry threshold for customers, prioritised services to satisfy green credit financing needs related to energy conservation and environmental protection and technological upgrading, moderately increased financing support for high-quality leading enterprises in the industry, devoted efforts to reducing and withdrawing from customers associated with significant risks and "difficult-to-improve" operating conditions, and achieved the optimised allocation of the asset structure and the customer structure through total amount control, elimination of the inferior and selection of the superior. As at the end of the reporting period, the business financing exposure to the industries that we have reduced or withdrawn from[6] (calculated on the full statistical calibre) amounted to RMB123.994 billion, representing a decrease of RMB2.811 billion as compared with the beginning of the year. The exposure to 4 industries including iron and steel, shipbuilding, basic chemical and coal chemical increased, and the exposure to the remaining 12 industries all declined. The non-performing loan ratio was 6.07%, down by 3.49 percentage points as compared with the beginning of the year. Affected by a continued decline in the risk exposure to and the scale of individual major customers, the non-performing loan ratio of 6 industries including mining and dressing of metals, coal chemical, water transport, fertiliser, textile chemical fibre and nonferrous metal smelting and calendaring was higher than that at the beginning of the year. The non-performing loan ratio of the other 10 industries was lower than that at the beginning of the year. It is expected that the overall risk in these industries is controllable in 2020.

9. Capital management

The Company continued to optimise its business structure and enhance capital management. During the reporting period, the Company satisfied the minimum capital requirements on the transition period arrangement, the reserve capital requirements and the countercyclical capital requirements of the CBIRC, with relatively adequate capital buffer.

As at the end of the reporting period, the percentage of the Company's risk-weighted assets under the Weighted Approach to total assets was 68.07%; the percentage of risk-weighted assets under the Advanced Measurement Approach to total assets was 59.82%, lowered by 8.25 percentage points as compared to that under the Weighted Approach, indicating an effective saving in capital. The risk-adjusted return on capital (RAROC, before tax) under the Advanced Measurement Approach was 26.22%, significantly higher than the cost of capital.

As at the end of the reporting period, the growth rate of risk-weighted assets (without taking into consideration the floor requirements during the parallel run period) under the Advanced Measurement Approach of the Company was only 9.05%, lower than the growth rate of risk-weighted assets under the Weighted Approach of 10.53%, which was mainly attributable to the Company's continuous promotion of the strategy of "Light Capital", resulting in further optimisation in the business structure. The growth rate of risk-weighted assets (having taken into consideration the floor requirements during the parallel run period) under the Advanced Measurement Approach was 12.69%, higher than the growth rate of the risk-weighted assets under the Weighted Approach, which was mainly due to the impact of regulatory measurement rules requiring more risk-weighted assets to be added back under the Advanced Measurement Approach. According to the regulatory minimum capital calculation rules, the risk-weighted assets added back from the minimum capital under the Advanced Measurement Approach are positively related to their over-allowances. As the Company has adhered to a more prudent and sound risk management strategy, the allowances in 2019 were adequate and the excess-allowances calculated into the Tier 2 capital under the Advanced Measurement Approach increased correspondingly. The risk-weighted assets added back from the minimum capital increased by RMB184.7 billion as compared with the end of the previous year, thereby accelerating the growth in the risk-weighted assets under the Advanced Measurement Approach (taking into consideration the floor requirements during the parallel run period). As at the end of the reporting period, the capital adequacy ratio of the Company under the Advanced Measurement Approach increased as compared with the end of the previous year, but the total capital adequacy ratio decreased as compared with the end of the previous year, mainly due to the redemption of Tier 2 capital debt amounting to RMB11.3 billion during the year. If this factor is excluded, the capital adequacy ratio of the Company under the Advanced Measurement Approach increased by 0.02 percentage point as compared with the end of the previous year.

---

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

6 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.

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. As at the end of the reporting period, the Company issued a total of 18 asset securitisation projects through the inter-bank market with a total issue size of RMB120.783 billion. The underlying assets included auto installment loans, credit card loans, personal housing mortgage loans, non-performing mortgage loans and non-performing credit card loans.

In order to ensure the sustainable and healthy development of the Company's business, protect the long-term interests of shareholders and enhance the capability of risk resisting, with the approval of the Board of Directors and Shareholders' general meeting, the Company decided to issue write-down undated capital bonds with an issue size of not more than RMB50 billion in China to supplement the Company's other Tier 1 capital. For details, please refer to the relevant announcements published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company. At present, the issue is still subject to regulatory approval. The issue of write-down undated capital bonds is not expected to have a significant impact on the Company's ROE and other indicators. The Company will continuously improve the level of shareholder returns through various methods such as improving the efficiency of capital utilisation and optimising the structure of assets and liabilities.

In recent years, the "stringent regulatory requirements" of the regulatory authorities have become a norm. Regulatory documents in specific areas such as the New Regulation on Asset Management, the "Guidelines on Improving the Supervision of Systemically Important Financial Institutions (《關於完善系統重要性金融機構監管的指導意見》)" have been issued in succession. The international regulatory reform has continued to advance, and the final reform plan of Basel III will be fully implemented in the next few years. Being confronted with this situation, the Company will continue to stick to the following principles in capital supplement: fund generation and accumulation are mainly from internal resources, with capital replenishment through external resources as additional assistance; fund-raising is achieved through various channels and ways. The Company will continue to enhance the concept of refined capital management, continuously promote the application of the risk-adjusted return on capital (RAROC), the economic value added (EVA) and other valuation indicators, trace the progress of international capital regulatory reform, continue to implement the internal capital adequacy assessment procedures (ICAAP), keep a dynamic balance of supply and demand of capital, and comprehensively plan the use of various capital instruments. Through the above efforts, the capital adequacy ratio of the Company is expected to achieve its goals, i.e. the core Tier 1 capital adequacy ratio, the Tier 1 capital adequacy ratio and the capital adequacy ratio will reach and maintain above 9.5%, 10.5% and 12.5%, respectively, in 2020 and 2021.

10. Increase in monthly active users (MAU)

In 2019, the Company continued to use monthly active users (MAU) as the North Star Metric, focused on building the capability of acquiring mass customers at low cost and the capacity of digital operation, built new momentum for the development of retail business, promoted the continued growth of MAU, and created new competitive advantages. As at the end of the reporting period, the MAU of "CMB" and "CMB Life", two major apps of the Company, exceeded 100 million, indicating that the Company had reached a new level on the road to digital operation.

In the future, the Company will make efforts in the following aspects for the continuous promotion of the growth of MAU. Firstly, the Company will carefully polish various digital platforms, improve the operating system, accelerate the iteration and optimisation of the two major apps of "CMB" and "CMB Life", and create a brand new digital operation and service platform for users as many as 100 million. Meanwhile, the Company will strengthen empowerment in the aspects of data, traffic, platform and tool to enhance the coordinated operation capabilities of the two major apps. Secondly, based on the existing customer acquisition system, the Company will establish a centralised direct marketing and sales team to strengthen the market development capabilities of branches in undertaking frontline work; accelerate breakthroughs in new customer acquisition models such as digital customer acquisition to increase the proportion of digital customer acquisition; explore the construction of open banking, actively carry out cross-sector cooperation, and promote the sustained and rapid growth of users and customers. Thirdly, the Company will carry out data intelligent applications in marketing, risk control, customer service and operations by making full use of Fintech, increase capabilities in digital operation, and improve user retention, conversion and value realisation in the apps. Meanwhile, the Company will strengthen the expansion of scenarios, enrich its capabilities of serving various scenarios, and constantly increase loyalty of customers.

3.9.2 Outlook and countermeasures for 2020

In 2020, domestic economic growth will remain under pressure due to overlapping internal and external contradictions. Externally, although the first stage of trade agreement between China and the U.S. has avoided further deterioration of the trade frictions, the U.S. has only slightly reduced the tariffs imposed on China as currently the average tariffs rate imposed on China by the U.S. remains close to five times of that before the commencement of the trade friction, which will still have significant negative impact on China's economy. Domestically, the COVID-19 pandemic will drag down economic growth significantly in the short term while weakening resident consumption upgrade and declining momentum of investment in real estates under the background of low fertility and aging population has resulted in growth of manufacturing investment in the bottom range with possible narrowing of trade surplus.

In 2020, China's GDP may be exposed to significant impact in the first quarter and experience a restorative rebound afterwards. The main pressure comes from the COVID-19 pandemic and the trade frictions. In respect of investment, the COVID-19 pandemic will pose significant pressure on real estate investment while real estate regulatory policies for some areas may be relaxed. Growth of manufacturing investment may continue to be sluggish due to the impact of the COVID-19 pandemic coupled with slowing growth of corporate profit and weakening confidence in capital expenditure. Infrastructure investment will become the main driver for "steady growth" with further rising probability of growth. In respect of consumption, the COVID-19 pandemic will have a relatively large- impact on consumption in the first quarter while declined growth in resident incomes will also be unfavorable to consumption growth for which the government may soon launch a stronger consumption stimulus policy. In respect of trade, trade frictions will still have negative impact on imports and exports while overseas development of the COVID-19 pandemic will have significant impact on external demand and curb global trade activities. After the pandemic shocks, China's aggregate supply and demand will experience restorative rebound but the annual GDP growth rate will be negatively affected. In respect of prices, under the impact of surging pork prices, the year-on-year growth rate of the CPI in the year may be the highest around the Spring Festival and is expected to decline afterwards; the year-on-year growth rate of PPI may still hover around zero due to the COVID-19 pandemic.

In respect of exchange rate, although the RMB faces triple pressure from the US dollar index, the COVID-19 pandemic and the trade frictions, cross-border funds will increase their allocation in the Chinese market against high interest spreads between China and the United States, a "monetary-easing (寬鬆潮)" in global monetary policy and China 's increased financial openness, which will support the repeated fluctuation of the RMB exchange rate around 7:1.

In respect of fiscal policy, due to the advent of the peak period of local governments' debt repayments and weak growth of fiscal revenue, there will be less room for tax and fee reduction. Affected by the COVID-19 pandemic, the governments may increase the rigorousness of fiscal policy by further increasing the targeted deficit rate and expanding the scale of new special bonds issuance. In respect of expenditure, it is still necessary to continue to reduce general expenditures to ensure funding in key areas with multiplier effects. Expenditure in areas such as urban and rural community affairs, energy conservation and environmental protection, agriculture, forestry and sea products, and debt interest payments that involve the "three major battles (三大攻堅戰)" may maintain relatively rapid growth. Affected by the pandemic, the proportion of fiscal expenditure in the public health sector will increase significantly. New policies such as funds raised from special bonds can be used as project funds and the increase in the proportion of infrastructure projects may significantly increase the stimulus of fiscal funds on infrastructure investment.

Monetary policies have opened space under the global coordinated "monetary-easing (寬鬆潮)". Affected by the pandemic or the loosed margins, efforts on countercyclical adjustments are strengthened while focus is made on solving structural problems. In respect of quantitative control, the central bank is expected to further cut the benchmark interest rate and flexibly use targeted tools such as targeted RRR cuts, Short-term Lending Faculity (SLF), medium-term Lending Faculity (MLF), relending and bill re-discounting to maintain reasonably adequate liquidity and reasonable growth in social financing, and may support infrastructure construction through mortgage replenishment loans. In respect of price regulation, the policy interest rates for all maturities may be lowered in full scale, and the LPR will be guided further downward by lowering the MLF, while the deposit interest rate may be guided downward by adjusting the benchmark deposit rate.

Under sound monetary policies, credit policies will continue to encourage banks to increase their support for the real economy, especially the "small- and micro-sized enterprises" and "agriculture, rural areas and farmers" as well as pandemic areas and pandemic control-related industries; meanwhile, investment in infrastructure and resolving hidden debts by local government still require support of bank credits. It is expected that the scale of bank credits will continue to expand at a relatively fast pace. With further advanced consolidation and reform of interest rate, the switch from existing loan interest rate to the LPR benchmark rate will push the return on equity of banks downward and further narrow the interest margin. In the context of deepening financial supply-side structural reforms, policies encourage the optimisation of financing structures, and capital markets are expected to develop faster, while intermediary businesses related to banks and capital markets also enjoy better development environment. In terms of supervision, 2020 will see the end of the "three tough battles". On the premise of keeping the bottom line of systemic risks, the state will accurately deal with risk institutions. It is expected that liquidation of non-performing assets of banks will be expedited and capital replenishment will be vigorously carried out. Some small- and medium-sized banks may experience restructuring, mergers and acquisitions.

In view of the current environment, the Company will maintain stable growth of deposits and loans in 2020, with an expected overall growth rate at around 10%. Against complex and difficult environment at home and aboard, the Company will maintain its strategic confidence by returning to the origin of customer service, adhering to the strategic direction of "Light-operation Bank" and the strategic positioning of "One Body with Two Wings". Focusing on the two main themes of customers and technologies with "openness and integration" as the methodology, the Company will enhance professional capabilities and consolidate digital infrastructure to promote organisation evolution and cultural transformation, continuously building the 3.0 business model.

Firstly, we will strengthen internal integration. We will break the boundaries of system, data, organisation and business to concentrate internal forces on serving customers and interaction with the market. Retail relies on digital means to integrate various products, online and offline channels, financial and non-financial services as well as equity systems to open up the customer service ecosystem and form the ability to provide continuous value for customers. For corporate business, it emphasises on the integration of strategic customers and small business, investment banking and asset management business as well as transaction banking business. We will promote the integration of retail and wholesale businesses by building a "B2B2C" ecological service chain to form an organic cycle of "one body" and "two wings" for inter-promotion. We will strengthen integration of front-office, middle-office and back-office to keep abreast of customers and the market. We will promote domestic and overseas integration by building a system of multinational business cooperation and global service system for servicing companies and private banking customers.

Secondly, we will strengthen external connections and open-up. We will open to the outside world for empowerment by active integration into the life circle of retail customers to provide customers with more financial and non-financial value-added services. We will actively integrate into the business circle of corporate core customers and participate in the process of industrial Internet, transforming customer awareness and industry awareness into the system and risk control abilities for serving the core customer ecosystem, so as to accelerate model innovation for empowerment of corporate customers and their employees and C-terminal clients.

Thirdly, we will seize market opportunities and improve professional abilities. We will seize capital market opportunities and residents' demand for preserving and adding value of assets by striving for enhancing asset allocation service capability, market expansion capability and digital middle-desk capability of retail business. In line with the trend towards counter-cyclical adjustment and open-up, our business will continue to focus on professional capability construction, vigorous development of institutional business, enhancing the competitiveness of international business, forming project financing system capability, and improving system capabilities for direct financing. We will seek both temporary and permanent solutions by consolidating and improving our ability of comprehensive risk management. We will eliminate blind spots and improve the system, with close attention to risks in key areas and continuous strengthening of basic management. Meanwhile, we will consolidate our risk management capabilities by deep integration of business.

Fourthly, we will construct a future-oriented Fintech infrastructure. We will accelerate construction of cloud computing capabilities to speed up progress of cloud adoption, and enhance data middle-desk construction to promote data access. We will also strengthen data governance to enhance the convenience and ease of data application; build a data application tool platform to lower the threshold of data application; and promote the connection and opening of systems to get through the work flow and information flow of all systems for achieving one access to the whole bank. We will decouple the system with an open mindset, turning functional modules into micro-based services and products, and will deposit all kinds of general capabilities into the middle-desk of the system.

Fifthly, we will promote open and integrated organisation evolution as well as cultural transformation. We will promote across-business-line integration of task-oriented project teams to drive talent flows, break traditional organisation boundaries and stimulate the vitality of the organisation. We will encourage employees to do the right thing by ongoing implementation of the "Simple Work Style". Meanwhile, we will further promote "removing inherent barriers, empowering frontlines and reducing burden on grassroots (打破豎井， 賦能減負)" while integrating management into services, consistently applying "openness and integration" in the standards for evaluation and appointment of cadres, hence building a cadre team with a grand mindset and a strong sense of openness.

3.10 Business Operation

3.10.1 Retail finance

Business overview

During the reporting period, the profit from the retail finance business of the Company maintained rapid growth, with profit before tax amounting to RMB65.158 billion, representing an increase of 13.86% as compared with the previous year. Net operating income from the retail finance business amounted to RMB142.558 billion, representing an increase of 15.66% as compared with previous year and accounting for 56.71% of the net operating income of the Company. Among the income from retail finance, the net interest income amounted to RMB95.184 billion, representing an increase of 18.19% as compared with previous year and accounting for 66.77% of the net operating income from retail finance; the net non-interest income amounted to RMB47.374 billion, representing an increase of 10.90% as compared with previous year while accounting for 33.23% of the net operating income from retail finance and 56.27% of the net non-interest income of the Company. During the reporting period, the retail finance of the Company recorded a fee income of RMB19.337 billion from bank cards, representing an increase of 17.09% as compared with previous year; the fee and commission income from retail wealth management was RMB19.453 billion, accounting for 41.96% of the net fee and commission income from retail finance.

2019 was a crucial year for the Company's digital transformation of retail finance 3.0. Facing competition from peer companies in the same and other industries, the Company focused on the goal of creating the "bank offering best customer experience", aiming to form business control while insisting on optimising customer base and asset structure, strengthening construction of technology empowerment, continuously exploring multi-dimensional business models to accelerate the creation of a service system for all customers, all products and all channels, and further promoting the digital transformation of retail finance 3.0 so as to seize the commanding heights of future development strategies.

Retail customers and total assets under management from retail customers

As at the end of the reporting period, the Company had 144 million retail customers (including debit and credit card customers), representing an increase of 14.82% 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 2,647,700, representing an increase of 12.07% as compared with the end of the previous year. The balance of total assets under management from our retail customers amounted to RMB7,493.955 billion, representing an increase of 10.17% 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 RMB6,085.225 billion, representing an increase of 10.48% as compared with the end of the previous year, and accounting for 81.20% 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 RMB1,674.223 billion, representing an increase of 16.53% as compared with the end of the previous year and ranking first among national small- and medium-sized banks according to data released by the PBOC. During the reporting period, the demand deposits accounted for 67.34% of the daily average balance of deposits per year from retail customers of the Company. As at the end of the reporting period, a total of 148,000,000 All-in-one Cards had been issued by the Company for retail customers, up by 11.89% as compared with the end of the previous year.

In 2019, the Company achieved steady growth in the number of retail customers and total assets under management from customers through ongoing value creation for customers and upgrading the new service model of "people + technology" led by digital transformation to create the best customer experience. As at the end of the reporting period, the Company had established an operating service system fully connecting finance and life, strengthened refined management while expanding the boundaries of customer services to continuously enhance its strength of professional competence and comprehensive financial services for customers, so as to enhance its core competitiveness in retail finance and consolidate its leading edge.

Wealth management

In 2019, the Company recorded RMB1,883.358 billion in the balance of year-end retail wealth management products, representing an increase of 15.33% as compared with the end of the previous year. The sales of non-monetary mutual funds amounted to RMB219.770 billion, an increase of 33.89% as compared with the previous year, a result of the fact that the Company seized opportunities in the capital market to focus on customer needs. The Company recorded RMB339.476 billion in agency distribution of trust schemes, representing an increase of 5.33% as compared with the previous year; and RMB94.319 billion in premiums from agency distribution of insurance policies, representing an increase of 33.88% as compared with the previous year. In 2019, the Company recorded a fee and commission income from retail wealth management business of RMB19.453 billion, among which, income from agency distribution of trust schemes amounted to RMB6.432 billion, income from agency distribution of insurance policies amounted to RMB5.788 billion, income from agency distribution of funds amounted to RMB4.713 billion and income from entrusted wealth management amounted to RMB2.401 billion. For details of the reasons of changes in fee and commission income from wealth management, please refer to 3.9.1 "Net interest margin" in this chapter.

During the reporting period, facing intensifying market competition, the Company maintained its differentiated leading edge in wealth management business by strengthening its capabilities of customer base expansion and operation as well as product creation and refined management. Firstly, the Company carried out management by class and by group centering on customer needs, allocating the right products for the right customers in the right channels through construction of a refined service system. Secondly, the Company innovatively created a comprehensive financial service system in response to customers' changing needs of wealth management. Thirdly, the Company promoted digital transformation by creating an efficient digital operation center and building a full-channel online and offline integrated operation service system. Fourthly, the Company continued to improve customer experience by enhancing its front-line professional level through people + intelligence. Affected by regulatory policies for wealth management, the Company faced new challenges as well as opportunities in its wealth management business. During the process of further promoting net value-based wealth management, the Company actively explored new development ideas for wealth management, cooperated with CMB Wealth Management Company Limited to conduct wealth management agency sales business, got a good insight in customer needs and paid attention to industry trends, and carried out creation of differentiated and customised products. Meanwhile, the Company continued to improve the after-sales service system, enriched the forms of customer investment education, and optimised the whole process service experience of wealth management to create the brand advantage of wealth management. During the reporting period, the Company continued to promote the Sunflower Wealth Planning Service System (金葵花財富規劃服務體系) and launched the wealth planning service on the CMB APP, striving to provide customers with a whole life-cycle wealth management plan for gaining long-term happiness for customers. The Company also constantly optimised analysis services of customers' asset allocation and offered full-asset management service to customers through the use of Fintech, big data as well as online-offline integration, so as to earnestly cater to customers' need for comprehensive wealth management.

Private banking

As at the end of the reporting period, the Company had 81,674 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 11.98% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB2,231.052 billion, representing an increase of 9.40% as compared with the end of the previous year; total assets per account amounted to RMB27.3166 million. As at the end of the reporting period, the Company has established a high-end customer service network consisting of 79 private banking centers and 61 wealth management centers in 67 domestic cities and 7 overseas cities.

The Company provided professional, comprehensive, private and confidential private banking financial services in areas of investment, taxation, legal affairs, mergers and acquisitions, financing and liquidation for high-worth customers at the three levels of individuals, families and enterprises. Always thinking from the perspective of customers and taking investment advisory services as the core, the Company kept strengthening its professional capacity for private banking business and deepening its comprehensive operation and service to customers, so as to create value for customers. Firstly, the Company continued to deepen customer acquisition system by strengthening customer base expansion. Secondly, by virtue of Fintech, the Company continued to make meaningful attempts in improving accurate identification of customer needs, offering professional financial solutions, cultivating professional skills of relationship managers, and improving internal operational efficiency to promote efficient operation of business. Meanwhile, the Company continuously enriched and upgraded the contents of comprehensive financial services and non-financial services to provide customers with comprehensive and effective integrated solutions. Going forward, the Company will continue to construct an open product platform for entrusted wealth management cooperation together with CMB Wealth Management Company Limited, and will implement various corresponding tasks according to the principles of marketisation within the overall framework of business cooperation.

Credit cards

As at the end of the reporting period, the Company had issued an aggregate of 95.2999 million active credit cards, representing an increase of 13.04% as compared with the end of the previous year, and there were 64.5048 million active credit card users, representing an increase of 11.16% as compared with the end of the previous year. The balance of credit card loans was RMB670.992 billion, representing an increase of 16.62% as compared with the previous year. The percentage of revolving balances of credit cards was 22.38%. In 2019, the credit card transactions of the Company amounted to RMB4,348.615 billion, representing an increase of 14.62% as compared with the previous year. Interest income from credit cards amounted to RMB53.999 billion, representing an increase of 17.44% as compared with the previous year. Non-interest income from credit cards amounted to RMB25.989 billion, representing an increase of 25.42% as compared with the previous year.

Against the backdrop of gradual exposure of risks brought by the previous rapid development of the cash loan industry, the Company effectively balanced risks and returns by upholding prudent risk appetite and grasping the rhythm and structure of business growth on the basis of a sound risk management system, seeking sustainable and healthy development of the credit card business. As at the end of the reporting period, the non-performing loan ratio of the Company's credit cards was 1.35%, up by 0.24 percentage point as compared with the end of the previous year, while the risk indicators were stable and controllable as a whole. In the long run, the quality of the Company's credit card loan assets will remain stable. For analysis of the risk management and control of consumer credit businesses, please refer to 3.9.1 "Asset quality in key areas" in this chapter.

During the reporting period, the Company adhered to an innovation-driven and technology-driven approach to maintain a good momentum of business development. Details include: continuous adjustment to and optimisation of new customer structure, active exploration of new models of customer acquisition through social activities, and strengthening refined management of offline channels; further optimising card using environment for life scenarios such as meal coupons and movie tickets; continuously upgrading of domestic and overseas marketing activities by launching the super reward for the 10th anniversary of the "10 yuan storm (10元風暴)", and launching the "Super Global (非常全球)" plan by establishing a cooperation platform jointly with five major international card organisations; refining the credit card product portfolios by launching the "Pokémon (寶可夢)" fans cards jointly with the IP "Pokémon", and combining with young people's characteristics of exploring the world and pursuing freedom to launch the brand new "Constellation Guardian (星座守護)" credit card and the "Free Life (自由人生)" platinum credit card; adhering to asset structure optimisation by continuously improving the satisfaction and marketing efficiency of consumer financial products to promote the formation of a quantification-based and customer-centric digital operation system; construction of an AI service platform with full efforts for active promotion of Fintech applications to create a big data ecosystem for further enhancement of user experience. In addition, the Company officially released the CMB Life APP 8.0 to restructure connection with customers from the three dimensions of content ecosystem, quality e-commerce and auto life. For details of the CMB Life APP, please refer to 3.10.3 "Distribution Channels" in this chapter.

Retail loans

As at the end of the reporting period, the total retail loans of the Company amounted to RMB2,327.955 billion, representing an increase of 17.12% as compared with the end of the previous year and accounting for 55.73% of the total loans and advances to customers, up by 1.30 percentage points as compared with the end of the previous year. In particular, total amount of the Company's retail loans (excluding credit card loans) reached RMB1,657.034 billion, representing an increase of 17.33% as compared with the end of the previous year, accounting for 39.67% of total loans and advances to customers of the Company and representing an increase of 1 percentage point as compared with the end of the previous year.

As to business development, the Company developed its mortgage business in a steady manner under local real estate control policies in support of residents' reasonable needs for their own homes. Under the premise of fully assessing risks, the Company actively implemented the state's inclusive finance policy to accelerate investment in inclusive micro-finance loan business, and meanwhile use Fintech to launch the "CMB APP" specifically for serving small- and micro-sized enterprises to provide them with intelligent, professional and integrated financial services to solve their problems of difficult and expensive financing. 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-value and customised features. Through the above measures, the Company realised healthy development of its retail credit business. As at the end of the reporting period, the Company recorded a balance of residential mortgage loans of RMB1,098.547 billion, representing an increase of 19.23% as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB405.149 billion, representing an increase of 16.09% as compared with the end of the previous year. The balance of consumption loans amounted to RMB123.691 billion, up by 17.32% as compared with the end of the previous year. As at the end of the reporting period, the Company had 6,422,300 retail loan customers, representing an increase of 35.63% 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, the Company kept stabilising the quality of retail loan assets by constantly optimising its policies for retail loans and enhancing its risk management capabilities. As at the end of the reporting period, the balance of the special mention retail loans of the Company amounted to RMB27.457 billion, and its special mention retail loans ratio was 1.18%, down by 0.15 percentage point as compared with the end of the previous year. The balance of non-performing retail loans amounted to RMB17.054 billion, and the non-performing loan ratio was 0.73%, down by 0.06 percentage point as compared with the end of the previous year. Among retail non-performing loan portfolio, the non-performing ratio of micro-finance loans was 0.81%, down by 0.53 percentage point as compared with the end of the previous year due to accelerated disposal of the non-performing micro-finance loans; the non-performing ratio of consumption loans was 1.18%, up by 0.05 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 75.43% of the balance of new non-performing retail loans of the Company in 2019, with a mortgage and pledge rate of 40.34%. Given that the vast majority of such new non-performing retail loans were fully secured by collaterals, the final loss was not substantial.

As to risk management, the Company continued to expand the breadth and depth of internal and external data resources, and strengthened the quantitative risk capability composed of "data + platform + model + application" to form a comprehensive risk management system driven by big data and quantitative model. The Company insisted on taking high-quality customers with a job and income in a stable industry as the major subject of customer acquisition to penetrate into different real consumption application scenarios. The Company carried out in-depth mining of internal and external data to depict, verify and restore customers' real status of assets and liabilities on a multi-dimensional basis, and establish personal income forecasting models for formation of a unified view of customer risks, thus effectively preventing the "joint-debt" risk and excessive credit grants. The Company also used Fintech to build personal loan customer relationship maps for identifying gang crimes and enhancing the ability of identifying and preventing risks of external partners. With the completion of a post-loan management system, the risk management defense lines were continuously advanced, thus forming a closed loop of risk management.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB45.046 billion, representing an increase of 5.30% as compared with the previous year. The net operating income from wholesale finance of the Company was RMB109.822 billion, representing a decrease of 0.93% as compared with the previous year, and accounting for 43.69% of the net operating income of the Company. Among them, net interest income of wholesale finance business amounted to RMB74.226 billion, representing a decrease of 4.00% as compared with the previous year, and accounting for 67.59 % of the net operating income of wholesale finance; net non-interest income of wholesale finance amounted to RMB35.596 billion, representing an increase of 6.16% as compared with the previous year, and accounting for 32.41% of the net operating income of wholesale finance business, and 42.28% of the net non-interest income of the Company.

Wholesale customers

As at the end of the reporting period, the total number of corporate depositors was 2,098,400, up by 12.94% as compared with the end of the previous year. The number of newly acquired corporate depositors of the Company during the reporting period was 429,200, contributing daily average deposits of RMB161.045 billion.

The Company has established the corporate customer service system featuring segmentation and classification-based management, as well as professional and dedicated management in respect of strategic customers, institutional customers, small-sized enterprise customers, financial institution customers and offshore customers. **With regards to its strategic customers**, the Company adopted intensive management approach and focused on professional management in the industry and the integrated management for the customers, to explore new ways in the capital chain, industrial chain and ecological chain of the enterprises. As at the end of the reporting period, the number of the strategic customers under the Head Office of the Company was 282[7], increasing by 31 as compared with the end of the previous year; the balance of daily average proprietary deposits amounted to RMB683.643 billion, increasing by 16.42% as compared with the beginning of the year; the balance of general loans amounted to RMB586.496 billion, increasing by 23.57% as compared with the beginning of the year. The Company has deepened its reform of the corporate financial management system during the reporting period. After the adjustment, the Company had 5,614[8] branch-level strategic customers. The daily average balance per year of the proprietary deposits amounted to RMB529.841 billion. The balance of general loans amounted to RMB240.040 billion. **With regards to its institutional customers**, the Company, by deepening the "Head Office-to-Head Office" strategic cooperation with the national ministries and commissions, continued to empower bank-wide customer-group operation and focus on fiscal, social security, public resource transactions, provident fund and other customer groups, fully exploited the low cost "liquid funds" and "incremental funds" of its customers, strengthened the "professional, scenario-based, and technology-driven" operation while making remarkable efforts in developing the high-value scenarios and strengthening linkage with its retail business so as to promote the rapid growth of institutional customers. As at the end of the reporting period, the Company had 35,400 institutional customers, up by 14.56% as compared with the end of the previous year, with an average daily deposit balance of RMB840.317 billion, representing a year-on-year increase of 8.92%. The market coverage rate of local governments' special debts issuance at provincial level increased from 54.28% to 77.78%. Accumulated derivative deposits were RMB262.801 billion, representing a year-on-year increase of 92.53%. The Company has secured the qualification for offering the occupational annuity services in all the provinces which have completed such tenders, with entrusted fund amounted to RMB42.904 billion, representing a year-on-year significant increase of 375.65%. **With regards to its small-sized enterprise customers**, the Company actively promoted the construction of digital operation model for small-sized enterprise, strengthened "online + offline" channels and optimised account opening process to enhance its capabilities to acquire new customers. As at the end of the reporting period, the number of small-sized enterprise customers reached 1,993,000, representing an increase of 13.76% as compared with the end of the previous year. During the reporting period, the Company accelerated the construction of supply chain framework, continued to focus on three major customer bases, which were Qian Ying Zhan Yi (千鷹展翼), upstream and downstream enterprises of strategic customers and traditional enterprises with stable businesses, 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. **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 continued to deepen the segmentation-based management of offshore customers, focus on strategic customers and new economic customers, conduct name list marketing, and used Fintech to enable new marketing methods.

7 The number of strategic customers at the Head Office level is that of the group customers as the strategic customers at the Head Office level operated by the Company in 2019.

8 The number of strategic customers at the branch level is that of the corporate customers as the strategic customers at the branch level operated by the Company in 2019.

Corporate loans

As at the end of the reporting period, total corporate loans of the Company amounted to RMB1,624.314 billion, representing an increase of 6.96% as compared with the end of the previous year and accounting for 38.89% 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 RMB810.964 billion, accounting for 54.59% of the total loans to domestic enterprises, and representing an increase of 7.31 percentage points as compared with the end of the previous year. The non-performing loan ratio of our corporate loans was 2.05%, representing a decrease of 0.32 percentage point as compared with the end of the previous year; the weighted average default probability of the risk exposure of the domestic non-defaulting corporate customers[9] was 0.99%, down 0.17 percentage point as compared with the beginning of the year. The quality of corporate loan assets was controllable.

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 RMB1,269.737 billion, representing an increase of 5.92% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 85.47% of our total loans granted to domestic enterprises, down by 0.45 percentage point as compared with the beginning of the year; the non-performing loan ratio was 1.91%, down by 0.07 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 RMB120.9 billion, representing a decrease of 3.74% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 8.14% of our total loans granted to domestic enterprises, down by 0.86 percentage point as compared with the beginning of the year; the non-performing loan ratio was 5.16%, down by 1.28 percentage points as compared with the beginning of the year. The balance of the loans granted to domestic small-sized enterprises amounted to RMB94.854 billion, representing an increase of 33.99% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 6.39% of our total loans granted to domestic enterprises, up by 1.31 percentage points as compared with the beginning of the year; the non-performing loan ratio was 2.74%, down by 2.39 percentage points as compared with the beginning of the year.

During the reporting period, from the perspective of continued operations and asset portfolio allocation, the Company steadily increased investment in incremental assets and optimised the structure of existing assets, closely followed national key strategic plans, especially for the medium- and long-term investment in Guangdong-Hong Kong-Macau Greater Bay Area, Yangtze River Delta, Beijing-Tianjin-Hebei, Yangtze River Economic Belt and other key areas. The Company continued to support real economy development, and increase support for the green industries and strategic emerging industries. The Company continued to explore new financial services for private enterprises through the use of big data, promote standardised products investment to further realise the support for private enterprises. As at the end of the reporting period, the balance of green loans of the Company was RMB176.773 billion, representing an increase of RMB10.740 billion as compared with the end of the previous year, and accounting for 10.88% of the total corporate loans; the balance of loans to strategic emerging industries[10] was RMB145.747 billion, representing an increase of RMB15.418 billion as compared with the beginning of the year and accounting for 8.97% of the total corporate loans. For further details of loans extended to the sectors which are subject to the strict regulation of the nation, such as the real estate industry and the local government financing platforms, please refer to section 3.9.1"Asset quality in key areas".

9 In 2019, adjustment was made to the primary scale and to the figures at the beginning of the year accordingly.

10 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 innovative technology enterprises. During the reporting period, the Company adhered to the strategic positioning of"Qian Ying Zhan Yi (千鷹展翼)" customer base, while enriching and optimising featured services under "Qian Ying Zhan Yi (千鷹展翼)", fully promoted the establishment of "Fintech Cooperation Alliance (科技金融生態合作聯盟)", and cooperated with a few dozens of equity investment funds, securities firms and service providers to establish a joint servicing mechanism for innovative technology enterprises, so as to nurture quality innovative technology enterprises for the capital markets. Meanwhile, the Company continued to bring innovative investment and loan linking services, launch new financial products such as "Tou Lian Dai (投聯貸)" with well-known investment institutions to meet the financing needs of emerging innovative technology enterprises. As at the end of the reporting period, the Company had a total of 26,000 registered customers under "Qian Ying Zhan Yi (千鷹展翼)", representing an increase of 1,247 customers as compared with the beginning of the year. The total amount of the credit lines granted to such customers amounted to RMB254.7 billion, and the balance of loans granted to such customers amounted to RMB41.9 billion.

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 RMB229.520 billion, up by 43.19% as compared with the end of the previous year.

Bill business

During the reporting period, the Company continuously optimised customer experience, and achieved growth in the number of customers of bill business as well as a solid foundation for business development. During the reporting period, the Company had 84,251 customers of bill business, representing a year-on-year increase of 26.63%, and its bills direct discounting business amounted to RMB1,236.210 billion, representing a year-on-year increase of 20.55%, ranking second in the market in terms of business volume (data from China Banking Association). As at the end of the reporting period, the bill discounting balance of the Company amounted to RMB224.884 billion, representing an increase of 54.42% from the end of the previous year.

During the reporting period, the Company actively adhered to the bill rediscounting monetary policy of the central bank. The business volume of bill rediscounting amounted to RMB206.326 billion, representing a year-on-year growth of 72.76%. The Company ranked first in terms of discounted bill balance as at the end of the year (data from China Banking Association). Because of the decrease in market interest rate and adjustment to internal operating strategy, during the reporting period, the discounted bills transferred to other financial institutions amounted to RMB579.229 billion, representing a year-on-year drop of 19.29%, and continued to stay ahead of its industry peers.

Corporate customer deposits

During the reporting period, the Company refocused on its business origin, created differentiated competitive advantages, centred on the two competitive product lines of transaction banking and investment banking to serve its customers, enhancing the loyalty and overall contribution of its customers through 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 RMB2,956.465 billion, representing an increase of 6.55% as compared with the end of the previous year; the daily average balance amounted to RMB2,894.682 billion, representing an increase of 5.69% as compared with the previous year; the demand deposits accounted for 54.66% of the balance of the daily average deposits from our corporate customers. During the reporting period, the average cost ratio of deposits from corporate customers was 1.77%, up by 0.09 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 and settlement platform, and expedited innovation on payment and account management. Firstly, the Company innovatively created a "Cloud Bill (雲賬單)" payment platform for online and offline transaction verification, identification and interbank payments. During the reporting period, the amount of transaction conducted through online payment platform was RMB287.271 billion, of which the annual transaction amount of five customers exceeded RMB10 billion. Secondly, 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, Smart Industrial Park and Smart Medical Care, to improve the retail and wholesale linking effect. During the reporting period, the transaction volume of corporate aggregated collection business was RMB146.647 billion, representing a year-on-year increase of 267.51%. Thirdly, 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", and further incorporated it with CMB Corporate APP to realise comprehensive card-free operation. The Company 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. Fourthly, the Company developed a user fund depository system for the administration of user funds in new forms of transport business. By opening a nationwide unique user fund depository account for customers, users can realise functions such as "dedicated funds, centralised management, and transaction restrictions." Fifthly, the Company upgraded and released CBS7.0, a treasury management cloud platform, incorporating technologies such as RPA (Robotic Process Automation) and big data analysis, to optimise global bank views, cross-border remittance tracking, internal fund valuation, automatic allocation of domestic and overseas funds, and integration of investment and financing management and other functions. As at the end of the reporting period, the Company provided treasury management services to 3,481 group customers. The number of companies under the treasury management reached 73,600, and the number of transactions exceeded 29.8783 million, representing a year-on-year increase of 12.16%.

In terms of trade finance, the Company proactively innovated featured products and promoted online trade finance. With respect to international trade financing business, 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 to meet the cross-border financing needs of strategic customers. During the reporting period, the Company's on- and off balance sheet commitments in international trade finance was USD18.266 billion. In domestic trade financing, the Company applied Fintech innovations to provide online convenient financing services for small- and medium-sized enterprises, including the promotion of direct payment agency services, focusing on small-valued and fragmented supply chain financing scenarios for core enterprises, and serving the small- and medium-sized upstream and downstream companies of core enterprises. The Company launched the self-service management and verification functions of the "Invoice Cloud (發票雲)"platform, 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, to improve operation efficiency and effectively prevent double financing of invoices. As at the end of the reporting period, the Company provided services to 2,131 corporate customers, checked and verified fund amounting to RMB126.334 billion. The Company promoted the inter-bank electronic information exchange of domestic letters of credit, launched the domestic electronic letter of credit system, and became the first bank in the country to pilot information exchange with the PBOC electronic information exchange system for letters of credit. During the reporting period, the Company's domestic trade financing amounted to RMB451.988 billion, a year-on-year increase of 18.36%.

With respect to its cross-border finance, the Company proactively promoted online international business and continuously innovated cross-border settlement facilitation. Firstly, the Company vigorously promoted the launch of SWIFT GPI (Global Payment Innovation) Phase II, to expand the function of the Company's GPI business, give feedback on cross-border remittance status, stop payment at real time, track payment from end to end, and enable transparent and predictable fees. The Company's cross-border fund receipt and payment services have been further improved, and corporate customers' cross-border RMB settlement needs have been met. During the reporting period, the onshore international settlements of the Company amounted to USD205.892 billion. The Company provided cross-border RMB settlement services to 23,300 corporate customers. The settlements amounted to RMB240.040 billion. Secondly, the Company vigorously promoted "electronic bills" business and provided complete online remittance service for eligible enterprises to facilitate their goods trading business; and established "Jie Suan Tong (結算通)", a comprehensive service plan for strategic customers to improve 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.

Offshore banking business

During the reporting period, on the one hand, the Company continued to enhance anti-money laundering measures, strengthened the implementation of anti-money laundering system, and used technology to help prevent and control anti-money laundering. On the other hand, it promoted the establishment of a comprehensive management system for non-resident customers, launched a number of new products for cross-border services to meet customers' overseas financial needs, established a marketing support platform, and optimised the operation of electronic processes to enhance the customer experience. During the reporting period, the Company pioneered the "Head office – Branches" replication model to promote the FT free trade account business, and implemented it in Haikou and Tianjin Free Trade Zones.

Investment banking business

During the reporting period, the Company adhered to the strategy of integrating investment banking and commercial banking, paid close attention to the direct financing market development opportunities and structural opportunities emerged from market volatilities, actively capitalised on asset organising and asset sales as the dual engines, and offered comprehensive services to its strategic customers at the Head Office and branches, to create differentiated competitive advantages and to achieve the steady development of investment banking business. The Company's brand image in the market is furthered enhanced.

With respect to its bonds underwriting business, the Company further deepened whole process reform, explore product innovation mode, and achieved a record performance in terms of underwriting scale and market ranking. During the reporting period, the bonds with the Company as the lead underwriter amounted to RMB653.243 billion, representing a year-on-year growth of 35.97%. According to WIND statistics, in 2019, the volume of credit bonds with the Company as the lead underwriter ranked third in the inter-bank market. It ranked first among the lead underwriters of banks in the non-policy financial bonds market. The Company actively participated in the issue of innovative bonds. During the reporting period, the Company successfully led the underwriting of the first short-term financing bond for security company by way of book-building, issued the first asset-backed "Three-green" (green issuer, application of funds to green projects, green fundamental assets) bonds, and the first non-financial corporate debt financing instrument in supporting the construction of Guangdong-Hong Kong-Macao Greater Bay Area in the inter-bank market.

With respect to its M&A financing business, the Company actively grasped the structural opportunities in the capital market, continued to develop syndication capabilities, and cultivated professional services for financial consultants to drive investment in high-quality assets through industry research. Despite a significant decline year-on-year in China's M&A transactions amount, the Company's M&A business maintained steady development. During the reporting period, the Company achieved M&A financing of RMB101.939 billion, achieved over RMB100 billion financing for three consecutive years, and successfully led and completed the M&A for GREE Hybrid Reform (格力混改) and other large- mergers and acquisitions. With regard to M&A financial advisory, the Company led and completed the control transfer of a number of listed companies, and the brand and influence of our M&A financial advisory business has been greatly enhanced.

With respect to its structural financing business, the Company has deeply cultivated market transaction business system construction and channel construction, and leveraged Fintech to enable it to accelerate the update of the "Zhao Tou Xing (招投星)"system and the "Zhao Tou Xing (招投星)" WeChat mini-program, opened internal and external communication channels, so as to improve business, promote efficiency and achieve rapid business development. During the reporting period, the Company realised structural financing of RMB28.504 billion and the scale of structured finance (matching business) amounted to RMB115.597 billion, representing an increase of 67.67% year-on-year.

With respect to its equity capital market business, the Company focused on customer deleverage, optimising capital structure needs, actively promoted 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 RMB7.157 billion.

Financial institution business

With respect to its financial institutions asset and liability business, the Company continued to strengthen the management of financial institution business, optimised its financial institution deposit structure and supported the liquidity management of the whole bank. As of the end of the reporting period, the balance of financial institution deposits of the Company amounted to RMB539.941 billion, representing an increase of 19.80% as compared with the end of the previous year. Among them, the total amount of financial institution demand deposits from fund clearing, settlement and depository service reported a balance of RMB436.227 billion, accounting for 80.79% 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 and achieved a better deposit structure. **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 101 securities companies and 10,611,100 customers secured at the end of the reporting period. In addition, the Company entered into cooperation with 85 securities companies on margin trading and short selling business, securing 409,500 customers at the end of the reporting period. Also, the Company entered into cooperation with 53 securities companies on stock options business, securing 29,200 customers at the end of the reporting period, and entered into cooperation with 126 future companies on fund transfer, securing 168,900 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 256, ranking first among all small- and medium-sized banks in China (according to the data released by the PBOC). There were 215 customers which participated indirectly through the Company in the RMB Cross-border Interbank Payment System (CIPS), ranking second among all small- and medium-sized banks in China and third among commercial banks (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 2,518, and during the reporting period, the online business volume amounted to RMB949.807 billion.

Asset management business

As at the end of the reporting period, the balance of the Company's wealth management products (excluding structured deposits)[11] amounted to RMB2.19 trillion, representing an increase of 11.73% as compared with the end of the previous year. Among them, off-balance sheet wealth management products accounted for 97.66%; 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 balance of new products[12] amounted to RMB685.196 billion, representing an increase of 200.27% as compared with the end of the previous year, accounting for 31.22% of the balance of wealth management products (excluding structured deposits), up by 17.18 percentage points as compared with the end of the previous year.

During the reporting period, the Company has maintained a steady and healthy development of the asset management business while promoting the establishment of CMB Wealth Management. The Company's asset management business scored a number of achievements in the following aspects.

11 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.

12 New products are wealth management products in compliance with the relevant provisions of the New Regulation on Asset Management.

Firstly, the Company continued to promote the transformation of its products. During the reporting period, the Company continued to promote the transformation of wealth management products in accordance with the requirements of the New Regulation on Asset Management and supporting policies. The Company launched 158 new products in the year. The balance of new products ranked among the top in the industry, and our products began to transform from short-term low-volatility or mid-to-long-term low-volatility to mid-to-long-term medium-volatility. In terms of performance, new products have realised stable returns in fixed-income investment and buy-low strategy in stock investment. The "Qing Kui (青葵)" series of products have established reputation in the market, and returns of products have remained stable against relevant benchmark. The balance of products have exceeded RMB100 billion. After CMB Wealth Management went into operation, in response to the needs and preferences of the Company's different customer groups, the new product naming system of "Zhao Ying Ruizhi Zhuoyue (招赢睿智卓越)" was formally launched. The first product "Zhao Rui Yi Yang Er Nian Ding Kai(招睿頤養2年定開)" completed fund raising and started to accrue interest in early 2020.

Secondly, the Company constantly optimised its asset structure. During the reporting period, the Company maintained a stable asset allocation structure, and directed the wealth management capital flows towards the real economy. On the 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 RMB1,628.588 billion, and the proportion of bond assets was 67.95%, rose 8.27 percentage points as compared with the end of the previous year. On the other hand, the Company made non-standardised credit investments within the credit limit in strict compliance with the regulatory guidance. Under the "Private Fixed Investment (以募定投)" model, private equity funds with multi-asset class portfolios have been successfully issued, and the capacity of non-standardised assets has been effectively improved, with investment scale significant rebound. The balance of wealth management funds invested in non-standardised assets of the Company amounted to RMB208.728 billion as at the end of the reporting period.

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, and actively explored the establishment of a risk management system compatible with product transformation, i.e. from asset-side individual credit risk management to a comprehensive risk management system centered on product portfolios. Based on product creation and different stages of product operation and the characteristics of different products, the Company formulated more target-oriented investment strategies and risk preferences, and carried out full-coverage monitoring of risks including credit risks, concentration risks, interest rate risks, liquidity risks, operation risks and other risk indicators, to ensure that the investment operation of the product complies with external regulatory requirements and meets customers' risk appetite and return requirements. At the same time, the Company continued to strengthen the management of outsourcing agencies. The outsourcing agencies that continued in the reporting period were all large-scale funds, securities firms and well-known insurance institutions in the market.

Asset custody business

As at the end of the reporting period, the balance of assets under custody of the Company was RMB13.23 trillion, representing an increase of 7.13% 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, affected by the decline of the overall market custodian fee, the Company realised a custodian fee income of RMB3.605 billion, down by 18.79% year-on-year. The Company ranked fourth in terms of revenue in the domestic custody industry (according to the data released by China Banking Association).

During the reporting period, by leveraging on Fintech, innovative products and optimised processes, we further enhanced customer experience and market competitiveness of our asset custody business. Firstly, the Company focused on customer mobile office requirements and released full-featured online custody bank 3.0 and Handheld Custody APP 1.0 (掌上託管App1.0), and continued to lead the industry in terms of its custody technology capabilities. Secondly, the Company ranked first in terms of the scale of newly issued custody mutual fund in the industry in the reporting period (WIND public data). Thirdly, the Company has officially obtained the qualification of a pilot depositary certificate for depositary receipts, further consolidating the Company's leading position in the domestic custody industry.

Financial markets business

In 2019, facing the complexity and difficulties of the global economy, the Chinese economy was under downward pressure and the interest rate of the RMB bond market fluctuated significantly. The RMB exchange rate dropped after appreciation due to the impact of Sino-US trade negotiation process, and gradually stablised at the end of the year.

With respect to RMB bond investment, through in-depth study of domestic monetary policies and macroeconomic situation, the Company seized the opportunities brought by the volatility of the RMB bond interest rate. In the first quarter and from July to August when bond yields were relatively low, the Company focused on selling long-duration products. In the second quarter and from September to October when bond yields were relatively high, the Company concentrated on buying long-duration products, so as to flexibly adjust the duration of the RMB bond portfolio and improve the investment portfolio yields. At the same time, the Company also continued to optimise the position structure of banking accounts, increased the proportion of products with high allocation value, such as local government bonds, bonds with high credit ratings, and medium- and long-term treasury bonds, and reduced short- and medium-term policy financial bonds and credit bonds with relative low allocation value, so as to maintain stable yields despite the decrease of overall market yields. With respect to foreign currency bonds investment, the Company predicted that the Fed would return to the track of interest rate reduction through close tracking of the monetary policies of the major countries and based on logical judgment of the international economic situation and market trends. The Company proactively increased its investment in USD bonds, promptly extended the duration of foreign currency bonds investment portfolio, and increased the effort in credit bonds investment, so as to grasp the opportunity of the decline in the US bond market yields and the narrowing of credit spreads, and improve the investment yields of foreign currency bonds portfolios.

With respect to foreign exchange transactions, the Company proactively studied the global macro-economy and the monetary policies in relevant countries, focused on the Sino-US trade negotiation process, and grasped the opportunity brought by the low volatility of the global foreign exchange market and the periodic fluctuation characteristics of the RMB exchange rate. Through flexible trading risk exposure management and active market-making strategy, the Company promoted the development of relevant businesses.

In 2019, the trading volume of RMB exchange rate swaps reached USD832.197 billion, representing a year-on year increase of 8.94%; the trading volume of wholesale customer derivatives had reached USD181.422 billion, representing a year-on-year increase of 1.06%. According to the data from the China Foreign Exchange Trade System, RMB options of the Company ranked first in the interbank market.

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 141 branches, 1,681 sub-branches, one dedicated branch-level operation center (credit card center), one representative office and 16,750 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

Major retail e-banking channels

During the reporting period, the Company constantly improved the retail e-banking channels and further increased operational efficiency. As at the end of the reporting period, the Company's replacement rate of comprehensive service counters through the retail electronic channels was 98.25%; and the rate of rerouting customers from the service counters to visual counters was 95.99%.

CMB APP

During the reporting period, the Company released CMB APP 8.0, launched innovative financial services such as online financial planning and voice bookkeeping, and extensively introduced leading enterprises in the fields of content, life, convenience, and travel as its partners to build a non-financial ecosystem and create a better financial life for users.

As at the end of the reporting period, the number of CMB APP users in aggregate was 114 million, with 55,136,300 monthly active users, a total number of 6.093 billion logins and the average monthly logins of 11.82 per user during the reporting period. During the reporting period, CMB APP had 1.687 billion transactions and a total transaction amount of RMB33.20 trillion, up by 22.07% and 7.93% respectively, as compared with the previous year.

CMB Life APP for credit card

During the reporting period, the Company launched CMB Life APP 8.0, with the vision of "connecting the lives, consumption and finance of millions of people", and on the basis of further enhancing the main business of credit cards, actively explored and expanded content ecosystem, quality e-commerce, life with automobile and other living scenarios, so as to reconstruct the connection with the users. As at the end of the reporting period, the total number of CMB Life APP users was 91,264,300, of which non-credit card users accounted for 31.51%. During the reporting period, the maximum number of daily active users of CMB Life APP reached 9,035,800 and the number of monthly active users was 46,643,400 as at the end of the period. In terms of the number and online activity of customers, CMB Life APP continued to outperform other credit card APPs in the banking industry.

Smart service system

As for the smart debit card service system, the Company uses China Merchants Bank "WeChat Official Account" as an important channel for its brand promotion and business promotion. Through continuous high-frequency interaction with young customer groups over high-quality content and fun activities, the Company further enhanced the value and brand reputation of online marketing of the Company. At the same time, with continued improvements in the products and the operating system, the WeChat Official Account gradually became an important new engine for APP user growth. As at the end of the reporting period, the "China Merchants Bank" WeChat Official Account had accumulated 22,895,300 followers.

As for the smart credit card service system, the Company continued to explore the ecological layout of 1+N services of emerging channels by focusing on CMB Life APP and complementing with third-party channels. In order to sustain the enormous service traffic, the Company leveraged on 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-excavation, and management improvement. We integrated the call center service to CMB Life APP, so as to provide audio-visual multimedia interactive services for users and realise the improvement of service efficiency and customer experience. As at the end of the reporting period, the Company gained a total of 139 million fans through third-party credit card channels (mainly from WeChat, Alipay service window and official QQ account).

Remote banking

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

In 2019, the Company constantly improved its service capability and customer experience. As a result, the manual telephone access ratio reached 97.86%; the percentage of manual telephone responses within 20 seconds reached 94.07%; and the satisfaction ratio of its telephone customer service reached 99.71%.

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 90.11%[13], 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 76.11%[14]. During the reporting period, our visual counters received an average of 2,620,000 incoming calls per month, with the highest number of single day incoming calls reaching 132,100, showing high replacement effect of in-branch non-cash transactions.

Major wholesale e-banking channels

Online corporate banking

With emphasis on user experience, the Company upgraded online corporate banking to an integrated financial service and management platform, fully optimised a number of high-frequency functions such as payment settlement, billing and deduction, account inquiry, etc. and fully utilized personalized online banking to provide differentiated services for the Company's key customers. As at the end of the reporting period, the number of online corporate banking customers of the Company reached 1,954,400, representing an increase of 15.72% as compared with the end of the previous year, of which the number of monthly active customers was 1,003,800, representing an increase of 21.91% as compared with the end of the previous year. The total number of online corporate banking transactions of the Company reached 284,031,600 and total value of transactions amounted to RMB111.16 trillion during the reporting period.

CMB Corporate APP

Being the Company's second-largest "online" service platform for wholesale finance, CMB Corporate APP directly reaches customers through mobile applications, establishing an Internet business model that integrates account management, transaction payment and online foreign exchange services. During the reporting period, the Company launched a total of 248 services with local features across domestic branches on the CMB Corporate APP and built differentiated scenarios and O2O service models, which effectively improved customer experience and activity. We launched the international version of CMB Corporate APP at our New York Branch. The Company created a mobile financial service platform tailored for overseas corporate customers. As at the end of the reporting period, the number of customers of CMB Corporate APP reached 1,000,800, representing an increase of 87.45% as compared with the end of the previous year, of which monthly active customers reached 426,500, with the same caliber increasing by 136.68% as compared with the end of the previous year. During the reporting period, the number of mobile payment transactions made by customers through CMB Corporate APP amounted to 3,275,800, with a transaction value of RMB107.681 billion.

[13] Referring to the proportion of online text services in various types of remote consulting services.

[14] Referring to the proportion of services undertaken by intelligent robots in various remote consulting services.

3.10.4 IT and R&D

During the reporting period, focusing on the objective of "building itself into a bank with the best customer experience", the Company continued to build leading digital infrastructure while making adjustment to IT organisational structure and strengthening the organisational guarantee of infrastructure and platform construction. The Company further promoted lean transformation of research and development where the Company integrated technology with business, driving business agility by means of technology agility and business convergence with system integration. The business development of the whole 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, the Company built a "Cloud + API" technology architecture, benchmarking advanced technology and services of public cloud, offering a private cloud with low-cost and massive computing capabilities, providing self-service and convenient user experience for the whole Bank and subsidiaries and supporting the transformation and development of Digital Bank. The Company built a unified external service Open API platform and CMB APP small program platform to help build an open bank whereby the overall capacity of the data lake reached 9.8PB, supporting the Company's massive demand for data analysis. **With respect to the development of application systems**, the Company released CMB APP 8.0 and CMB Life APP 8.0, which were fully open to accelerate the digital transformation of retail finance 3.0. The Company released the treasury management cloud platform CBS7.0 to lead the innovation and transformation of treasury management and CMB Corporate APP 5.0, focusing on digital customer base management and iterative optimisation of scenarios. **With respect to overseas support**, the Head Office continued to coordinate the management and maintenance of the core business system of overseas branches and strengthened support for 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 was completed. **With respect to security and stability**, under the backdrop of rapid growth of system scale and transaction volume, the overall system was on the smooth side, and the availability of core accounting system and backbone networks remained its leading position among industry peers. The Company promoted the digital transformation of operations and maintenance, continuously optimised the business continuity management system, and established a Beijing site, together with Shenzhen and Shanghai sites to provide external network services and improve the user's network access experience. **With respect to "industry – university – science" partnership**, the Company has set up the Kunpeng Computing Joint Innovation Lab (鯤鵬計算聯合創新實驗室) and Outbound Load Balancing Joint Innovation Lab (負載均衡聯合創新實驗室) to accelerate the research results of the distributed database joint innovation lab. In the field of financial application of artificial intelligence such as intelligent customer service, risk-related public opinion, computer visualisation, knowledge management, knowledge map and marketing model, our technology is ahead of industry peers.

3.10.5 Overseas branches

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 financing, bilateral loans, syndicated loans, cross-border M&A portfolio solutions, asset management and asset custody, and engages in transaction of funds, bond trading and foreign exchange trading with financial institutions, 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. Featured products include "Hong Kong All-in-one Card" and "Hong Kong Bank-Securities Express".

In 2019, the Hong Kong Branch focused on the opportunities such as "The Belt and Road" initiative, RMB internationalisation and the construction of Guangdong-Hong Kong-Macao Greater Bay Area, greatly promoted cross-border business coordination, continuously developed the local customer base, constantly expanded its market share, and provided customers with strong financial support. Meanwhile, the Hong Kong Branch further strengthened risk compliance and internal basis management, constantly improved and innovated 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 a net operating income of HK$3.032 billion and a profit before tax of HK$2.550 billion.

New York Branch

Established in 2008, the New York Branch of the Company is Chinese banks' first branch approved in the U.S. since the US Foreign Bank Supervision Enhancement Act in 1991. The New York Branch is located 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..

In 2019, our New York Branch adhered to the principle of "taking compliance as a priority and maintaining steady operation" and aimed to improve the comprehensive service capabilities of the featured cross-border financial platform. Great progress was achieved in expanding Sino-US cross-border business, developing local business, enhancing customer management and strengthening compliance management. During the reporting period, our New York Branch realised a net operating income of USD100 million and a profit before tax of USD61,090,700.

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 (Singapore) Center was officially launched in April 2017 to provide 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.

In 2019, the Singapore Branch adhered to the operating strategy of concurrent development of cross-border financing business and local business, focused on the strategic customers of the Head Office and branches and quality enterprises located in Singapore, returned to its origin of customer service, adhered to professionalism and pursued high-quality development. In respect of private banking business, it focused on new products and customer expansion, went back to service essence and built the best customer experience bank. During the reporting period, the Singapore Branch realised a net operating income of USD20,725,700 and a profit before tax of USD8,344,200.

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 an operational platform of the Company in Europe on the basis of the superior businesses of the parent bank combined with the special advantages of Luxembourg.

In 2019, the Luxembourg Branch adapted itself to changes in the relevant policies, grasped market opportunities and achieved steady business growth through efficient services and close cooperation with other banks and financial institutions at home and abroad. During the reporting period, our Luxembourg Branch realised a net operating income of €16,881,900 and a profit before tax of €5,298,200.

London Branch

Established in 2016, the London Branch of the Company is the first branch approved to be established in the United Kingdom among all the PRC joint-stock commercial banks and also the first branch established in the United Kingdom directly by a bank in Mainland China since the founding of the PRC. It mainly focuses on corporate banking business and provides customers with diversified corporate banking products and services, such as deposits, loans (including bilateral loans, syndicated loans 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.

In 2019, based on the traditional businesses such as accepting guarantees from domestic enterprises as security for loans granted to overseas entities and accepting guarantees from overseas entities as security for loans granted to domestic enterprises, the London Branch innovated and developed business varieties to launch new trade finance products, such as making payments on behalf of customers (代付) and forfeiting (福費廷). At the same time, the London Branch successfully issued the 3-year floating rate USD medium-term notes (MTN), marking the substantial expansion of a long-term funding channel of the branch. During the reporting period, the London Branch realised a net operating income of USD22,103,700 and a profit before tax of USD7,905,400.

Sydney Branch

Established in 2017, the Sydney Branch of the Company is the first branch approved to be established in Australia among all the PRC joint-stock commercial banks. It proactively participates in Sino-Australian cross-border investment and financing services, trade financing and settlement, exploitation of mineral resources and the development of quality infrastructure projects, and provides supporting services for "going global" customers to layout in Australia and New Zealand and for "brought in" foreign leading enterprises to develop in China. At the same time, it steadily carried out private banking business in compliance with laws and regulations, and met the private banking customers' needs for global service and the cross-border non-financial value-added service. 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.

In 2019, on the basis of compliance 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, and customer operations were on the right track. During the reporting period, the Sydney Branch realised a net operating income of AUD18,112,300 and a loss before tax of AUD3,687,400, mainly due to the high allowances.

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, "CMB WLB 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, 33 branches and private banking centers 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.

In 2019, CMB Wing Lung Group realised an attributable profit to shareholders of HK$3.987 billion and a net operating income of HK$7.124 billion, of which net interest income was HK$5.220 billion and net non-interest income was HK$1.904 billion. The cost-to-income ratio was 32.75%.

As at the end of the reporting period, the total assets of CMB Wing Lung Group amounted to HK$341.843 billion. Total equity attributable to shareholders amounted to HK$39.024 billion. Total loans and advances to customers (including trade bills) amounted to HK$185.156 billion. Deposits from customers amounted to HK$243.136 billion. The loan-to-deposit ratio was 70.20%. The non-performing loan ratio (including trade bills) was 0.51%.

For detailed financial information on CMB Wing Lung Group, please refer to the 2019 annual report 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 "professionalisation, digitalisation and internationalisation", carried out the mission of "supporting national strategy, serving the real economy and promoting industrial upgrading", and launched the financial solutions for the ten industries of aviation, shipping, energy, infrastructure, equipment manufacturing, environment, health industry and cultural tourism, public transportation, smart interconnection & logistics and leasing. It satisfies the lessees' different needs in respect of equipment procurement, sales promotion, asset revitalisation, 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 RMB188.718 billion, and its net assets amounted to RMB20.366 billion. It realised a net profit of RMB2.501 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$27.973 billion, and its net assets amounted to HK$8.841 billion. It realised a net profit of HK$1.078 billion during the reporting period.

3.10.9 CMB Wealth Management

CMB Wealth Management was established and wholly owned by the Company with a registered capital of RMB5.0 billion, and was officially launched in November 2019.

As an independent legal entity with the tenet of "Repay Your Trust with Professional Wealth Management", CMB Wealth Management gradually establishes an all-round asset management business model which focuses on fixed income investments, supplemented by equity and alternative asset investments, and provides customers with cross-market, multi-category wealth management product portfolios and asset management service options, so as to meet their diversified needs for asset management.

3.10.10 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 held 55% of China Merchants Fund's shares. The business scope of China Merchants Fund covers fund establishment, fund management and other operations approved by the CSRC.

As at the end of the reporting period, the total assets of China Merchants Fund amounted to RMB7.295 billion, and its net assets amounted to RMB5.384 billion. The total size of the asset management business (including China Merchants Fund and its subsidiaries) amounted to RMB933.495 billion. It realised a net profit of RMB803 million during the reporting period.

3.10.11 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 held 50% of CIGNA & CMB Life Insurance's shares. 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 RMB58.752 billion, and its net assets amounted to RMB7.663 billion. During the reporting period, CIGNA & CMB Life Insurance realised a net profit of RMB1.378 billion.

3.10.12 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 RMB92.697 billion, and its net assets amounted to RMB9.360 billion. During the reporting period, Merchants Union Consumer Finance realised a net profit of RMB1.466 billion.

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 while proactively overcoming and preventing all kinds of risk.

3.11.1 Credit risk management

Credit risk refers to the risk arising from a bank's borrowers or counterparties failing to perform its obligations as agreed. 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)", and with the goal of "fostering a leading risk management bank", the Company promoted the risk management culture of "staying healthy, rational, proactive and comprehensive (穩健、 理性、 主動、 全員)", stuck to the concept of balanced returns and risks and the prudent business strategy in which risks can ultimately be covered by capital, implemented a unified credit risk preference, optimised the life-cycle credit risk management processes, improved credit risk management tools, and fully improved risk management capabilities, so as to prevent and reduce credit risk loss.

During the reporting period, the Company closely followed the macroeconomic and financial situations, conducted an overall planning, made breakthroughs in key areas and took various measures to root out potential risks, thereby effectively keeping asset quality in good shape. Firstly, the Company made pre-judgments to effectively adjust customer structure and business structure. In line with the operation strategy focusing on the strategic customers of the Head Office and its branches, the Company explored the business opportunities of project financing and direct financing, focused on serving the strategic customers of its supply chain business while further developing small- and medium-sized corporate customers in batches in both the upstream and downstream supply chains, and increased its credit grants for strategic emerging industries, the transformation and upgrading of traditional industries and other new growth-driving industries. The Company continued to strengthen risk investigations in areas such as large-scale risk exposure, inter-bank customers, P2P, private equity institutions and cooperative institutions, and optimised the risk pre-warning and reporting mechanism, thus realising early warning, early exposure and early disposal. Secondly, the Company vigorously promoted service integration to fuel business development. The Company expanded and deepened its research on new growth-driving industries, achieved the full coverage of the credit policies for an aggregate of 36 new growth engine industries and explored the implementation of active credit grants. The Company conducted the analysis of industrial trends and the research of regional credit policies of the Guangdong-Hong Kong-Macau Greater Bay Area, and formulated the credit policies for the Greater Bay Area covering business operation strategies, customer selection criteria, target customer list and protection measures. The Company has established a professional project evaluation team, developed a project evaluation system and a risk project evaluation reporting template, and provided the professional financing solutions. Focusing on specific industries, specific core enterprises, specific scenarios, specific products and specific cooperate institutions, the Company enriched the risk control platform and developed the rating models for closed specific scenarios. Thirdly, the Company comprehensively reviewed and leveraged various risk management tools. The Company promoted concentrated management and initially achieved the customer-centric credit risk pre-control goal, thus providing a starting point for management of concentration risk at the customer level. The Company explored the application of portfolio management in the asset allocation of customer groups or business areas, and established the consolidated risk management system in which the Risk and Capital Management Committee under the Board of Directors plays a core role, with performance appraisal as the mechanism, connected IT systems as the foundation and reporting relationships as the bridge. Fourthly, the Company optimised management processes and innovated management methods to improve risk management efficiency. The basic credit-granting processes were fully optimised and launched online, with pre-loan investigation, loan review and post-loan inspection upgraded to version 2.0, thereby achieving the goals of automation, modularisation, standardisation and openness, as well as information sharing through interconnection with relevant systems. Fifthly, the Company increased the channels for disposal of non-performing assets while effectively disposing of non-performing assets. The Company intensified 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 mitigate risk assets and achieved the effective and efficient disposal of non-performing assets based on compliance regulations. Sixthly, the Company deepened the application of Fintech services. The Company developed a series of projects, including an online risk management portal, a non-financial corporate smart rating model and a smart risk pre-warning model, so as to effectively improve its management efficiency.

For more information about the Company's credit risk management, please refer to Note 60(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. The Company implemented its country risk assessment system mainly by using the rating results of its sovereign rating model, and used the rating results to set limit on its country risk and make provisions for its country risk. 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-sensitive indicators and accumulative loss indicators, to measure, monitor 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 interest rate indicators or bond yield curves. VaR includes general VaR and stressed VaR, which are both calculated using the historical simulation method 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 scenarios include 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 sensibility indicator reflects the duration of bonds and the change in the market value of bonds and interest rate derivatives PV01 (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 2019, due to a slowdown in global trade, the world's major economies had only limited response space in their monetary policies. The endogenous growth momentum of the global economy further weakened and its growth rate hit the lowest point since the 2008 financial crisis. There also saw an increase in external uncertainties. The Federal Reserve cut its interest rates for the first time over the past 10 years and expanded the balance sheet for the first time over the past 7 years. The yield curve of USD bonds once showed an inversion, causing market concerns. The downward risk in the euro zone still existed, Japan underwent greater economic fluctuations, and Britain was dragged down by Brexit uncertainties. The economic development environment became more complicated in China. Pork prices rose rapidly, the downward pressure on real economy augmented, and small- and medium-sized banks sustained partial risks. Under this situation, the central bank has maintained a sound, flexible and moderate monetary policy, strengthened counter-cyclical adjustments, and maintained reasonably sufficient liquidity. As a result, the yield of the 10-year government bonds fluctuated between 3.0% to 3.5% for the whole year.

The investment scope of the trading book of the Company focused on RMB bonds, especially domestic interest rate bonds. In 2019, various interest rate risk indicators of the trading book of the Company 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, clients' exercise of embedded options in the deposit and loan business, and 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 Company adhered to the principle of moderately prudent interest rate risk preference, kept a close eye on the domestic and international macroeconomic fundamentals and the marginal changes in the direction of monetary policies, made in-depth analysis and forecast of the market interest rate developments through macro-modeling while flexibly making adjustments to the proactive interest rate risk management strategy based on the above judgments. Before the central bank officially issued the LPR reform plan, the Company had conducted an impact analysis and forward-looking preparations for the interest rate risk caused by unification of interest rates, and responded promptly after implementation of the reform plan to adjust the direction and intensity of active management measures for interest rate risk in a timely manner. At the same time, the Company started out to study the LPR–based derivatives, and explored new tools and channels for strengthening the active management of interest rate risk in the context of loan interest rate marketisation. Although the results of stress test showed that various indicators for the interest rate risk rose slightly, they still stayed within the set limits and pre-warning values, and the interest rate risk of the banking book was generally controllable.

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 transactions on the trading book), the exchange loss indicator under stress test, exchange-rate-sensitive indicator and accumulated loss indicator to conduct risk measurement and monitoring management. As for risk measurement, the selected exchange rate risk factor is applied on spot prices, forward prices and volatilities 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 every transaction currency against RMB, and changed volatility of foreign exchange options. Major exchange-rate-sensitive 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.

The RMB exchange rate in 2019 fluctuated up and down according to market supply and demand, showing obvious two-way fluctuations. In the spot market, affected by the international economic and financial situation, the progress of trade negotiations and other factors, the RMB-USD exchange rate rose over "7:1" under market forces, and RMB remained stable and strong against a basket of currencies. The "stabiliser" role of the RMB exchange rate in market supply and demand was prominent with increased flexibility. In the derivative market, the spreads between China and the United States changed frequently, the USD-RMB swap points fluctuated significantly, and the one-year swaps reached to a maximum of 490 basis points. The implied volatility of the RMB exchange rate options was basically within the reasonable range. However, due to the impact of Sino-US trade negotiations, the market mood of risk aversion was strong at certain points in time, driving up the volatility which once exceeded the level at the end of 2018.

Under this background, the Company mainly relied on foreign exchange trading business on behalf of customers to obtain stable spread income, and utilised system modules to dynamically monitor the exposure of proprietary trading, and strengthened the control over the limit indicators such as sensitivity index and stop-loss. In 2019, all exchange rate risk indicators of trading book of the Company were within the target range.

Banking book

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 uses the short-sided method, the correlation approach and the aggregation 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 2019, the annualised volatility of the RMB exchange rate stabilised gradually. Facing the changing international economic situation, the Company increased its efforts to analyse the domestic economic situation and the Sino-US trade friction, achieved a systematic measurement of foreign exchange exposure and imposed a stringent control over the scale of foreign exchange risk exposure. The Company was prudent about the exchange rate risk. As of the end of the reporting period, the size of the banking book of the Company's foreign exchange exposure was at a relatively low level. 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 60(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 prevention 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 strengthened the control of risks associated with key areas, carried out risk screening on P2P, private equity funds, unlicensed businesses and payments, management of funds from presale of commercial properties, discounted business bills and other areas, and strengthened risk management and control. Secondly, the Company optimised and improved its management tools. Through the inspection of key risk indicators, the Company examined and adjusted indicators from various perspectives, so as to further strengthen the operational risk reporting mechanism, and optimise the operational risk assessment mechanism and economic capital allocation plan of operational risk. Thirdly, the Company strengthened the management of outsourcing-related risk, prudently accessed and evaluated the types of products and services to be outsourced, fortified approval management, expanded the scope of outsourcing-related risk monitoring and organised the post-assessment of outsourcing projects across the Bank. Fourthly, the Company strengthened the management of IT risk and business continuity management, and conducted information technology process inspection. Fifthly, the Company further improved the performance of operational risk management system, and promoted the utilisation of operational risk data analysis platform. Sixthly, the Company enhanced the empowerment of the branches, and conducted various forms of trainings 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 risk that the Company's unable to obtain sufficient funds at a reasonable cost in a timely manner to grow its assets, pay maturing debts and perform other payment obligations. The liquidity risk management of the Company is based on the principles of prudence, foresight and comprehensiveness, which is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company have basically satisfied the regulatory requirements and its own management needs.

Based on the principle of separating policy-making, strategy implementation and supervision of liquidity risk management, the Company puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, the Risk and Capital Management Committee, the Board of Supervisors, senior management, designated committees and relevant departments are segregated to ensure the effectiveness of liquidity risk management.

In 2019, the central bank maintained a prudent monetary policy and reasonably adequate liquidity. 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 controlled the exposure of credit assets, and continued to optimise the asset structure, in order to achieve smooth management 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 financing capability of our treasury. 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 central bank's medium-term lending facility and open market operation, and launched the issuance of financial debts as the appropriate opportunities arose, so as to improve the proactive risk management of the liquidity risk. Fifthly, the Company moderately increased its investments in qualified high-quality bonds, maintained sufficient liquidity reserve, and further enhanced the ability to mitigate liquidity risk. Sixthly, 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. Seventhly, 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.

The Company has satisfied the relevant requirements of the "Administrative Measures on Liquidity Risk of Commercial Banks" issued by the CBIRC in May 2018. As at the end of the reporting period, the Company's liquidity coverage ratio was 171.53%, higher by 71.53 percentage points than the minimum requirement of the CBIRC. The net stable funding ratio was 122.62%, higher by 22.62 percentage points than the minimum requirement of the CBIRC; the liquidity ratio was 51.90%, higher by 26.90 percentage points than the minimum requirement of the CBIRC; and the liquidity matching ratio was 153.12%, higher by 53.12 percentage points than the minimum requirement of the CBIRC[15], indicating that the Company had sufficient funding sources to meet the needs of sustainable and healthy development of the business. 10.5% of the Company's total RMB deposits and 5% of the Company's 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.

For more information about the Company's liquidity risk management, please refer to Note 60(c) to the financial statements.

15 The liquidity coverage ratio, net stable funding ratio, liquidity ratio and liquidity matching ratio are all the external regulatory indicator – the legal person's calibre.

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.

During the reporting period, the Company carried out an iterative upgrade for the existing public opinion surveillance system and increased the dual-line early-warning models of the Head Office and branches in respect of branch-related public opinions, so as to improve the response efficiency of negative public opinions. The Company comprehensively investigated the risk associated with third-party cooperative institutions, and strengthened the pre-management of reputational risk to reduce hidden risks. The Company has established the public opinion case database shared by the Head Office and branches, sorted out and analysed typical public opinion cases and conducted relevant trainings, thus continuously improving the awareness and management of reputational risk of the whole Bank.

3.11.8 Compliance risk management

Compliance risk refers to the risk of the Company 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 highest management organisation under the senior management to manage compliance risk of the whole Company. The Company has set up a complete and effective compliance risk management system, the organisational management structure comprising the Risk and Compliance Management Committee, compliance supervisors, compliance officers and the Legal and Compliance Department under the Head Office and its branches as well as compliance supervisors at branch and sub-branch levels, the three defence lines for compliance risk management and the double-line reporting mechanism, and achieved effective control of compliance risk through continuously perfecting its risk management system and mechanism and improving its management techniques.

During the reporting period, confronting the continuously "tough and stringent regulatory requirements", the Company proactively adapted to the new regulatory requirements, accurately grasped the direction of compliance, ensured the full implementation of the regulatory requirements, and further improved the long-term mechanism for internal control and compliance management. The Company primarily adopted the following internal control and compliance management measures: firstly, formulating and issuing the "Guiding Opinions for Internal Control and Compliance Work of the Bank in 2019", and making arrangements for the internal control and compliance management of the whole Bank; secondly, carrying out the "Rectification of Disorders and Promotion of Compliance" in accordance with the requirements of the CBIRC, and making comprehensive rectifications in equity and corporate governance, implementation of macro-policies, credit management and other aspects, thus further consolidating the foundation of internal control and compliance management; thirdly, timely understanding, disseminating and effectively identifying new regulatory requirements and evaluating, mitigating and resolving the compliance risks associated with new products, new businesses and major projects; fourthly, strengthening the system management of the whole Bank, organising and carrying out system improvement, re-investigation, post-evaluation and other tasks to improve management systems; at the same time, launching the office and system optimisation projects to improve work efficiency while facilitating the staff of the Company to utilise their fragmented time to learn the key knowledge points about the system; fifthly, strengthening employee behavior management through various approaches such as investigating employees' abnormal behaviors, keeping a record of employees' points of minor violations, conducting due diligence on the personnel engaging in asset business and applying for resignation, issuing training materials such as employee compliance and warning cases, and organising multi-level compliance education to further enhance the employees' compliance concept and awareness across the Bank; sixthly, continuously conducting comprehensive compliance inspections, thoroughly analysing the causes of various problems found in internal and external inspections, following up and supervising the rectifications, and constantly improving the internal control and compliance management at all levels.

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 a comparatively complete 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 were not limited: further improving the internal control system for anti-money laundering of the Company in accordance with the requirements of the "Guidelines for Risk Management of Money Laundering and Terrorism Financing for Legal Entities of Financial Institutions (Trial)", "Administrative Measures for Anti-Money Laundering and Anti-Terrorism Financing in Banking and Financial Institutions" and other regulatory documents. The Company strengthened the assessment of money laundering risks associated with its businesses and products and the review of the anti-money laundering system, and effectively embedded anti-money laundering compliance requirements into business processes and systems. The Company further carried out various risk screening and case re-investigations to prevent various money laundering risks, proactively promoted the application of AI and other financial technologies in anti-money laundering to enhance the efficiency and quality of monitoring and analysis, thus improving the efficiency and quality in the field of analysis by 30% and 8%, respectively, developed and promoted the customer background investigation platform for anti-money laundering and improved the customer due diligence processes. The Company continuously optimised the anti-money laundering monitoring systems, the name list management system for anti-money laundering and the risk rating systems to improve the effectiveness of anti-money laundering across the Bank. The Company implemented the "Notice of the People's Bank of China on Strengthening the Identification of Anti-Money Laundering Customers" and other regulatory requirements, and continued to carry out beneficiary identification, suspicious transactions reporting, subsequent risk control and the management of customers associated with high risks.

3.12 Profit Appropriation

3.12.1 The profit appropriation plan for 2019

10% of the audited net profit of the Company for 2019 of RMB86.085 billion, equivalent to RMB8.609 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the risk assets, equivalent to RMB10.002 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 proposed to declare a cash dividend of RMB1.20 (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 actual appropriation amount in HKD will be calculated based on the average RMB/HKD benchmark rates to be released by the PBOC for the week before the date of the shareholders' general meeting (inclusive of the day of the shareholders' general meeting). The retained profits will be carried forward to the next year. In 2019, the Company did not transfer any capital reserve into share capital. The above profit appropriation plan is subject to consideration and approval at the 2019 Annual General Meeting of the Company.

For the other information on the closing date for registration, the period for closure of register of members and the profit appropriation plan for the shareholders who are entitled to attend the Company's 2019 Annual General Meeting and those who are entitled to receive the final dividends for 2019, the Company will make further announcement(s) at appropriate times. The Company expects that the distribution of final dividends to the H Shareholders will be completed by 28 August 2020.

3.12.2 Profit appropriation for the last three years

Year	Number of bonus shares for every share held (No. of shares)	Cash dividend for every share held (inclusive of tax, in RMB)	Number of shares issued on capitalisation of surplus reserve for every share held (No. of shares)	Total cash dividends (inclusive of tax, in millions of RMB)	Net profit attributable to holders of ordinary shares in the consolidated financial statements for the year (in millions of RMB)	Proportion of cash dividend to net profit attributable to holders of ordinary shares in the consolidated financial statements (%)
2017	–	0.84	–	21,185	70,150	30.20
2018	–	0.94	–	23,707	78,901	30.05
2019(note)	–	1.20	–	30,264	91,197	33.19

Note: The profit appropriation plan for 2019 is subject to consideration and approval at the 2019 Annual General Meeting of the Company.

3.12.3 The formulation and implementation of the Company's cash dividend policies

1. As specified in the Articles of Association of China Merchants Bank Co., Ltd., the profit appropriation policies of the ordinary shares of the Company are:

(1) profit appropriation of the Company shall focus on reasonable returns on investment of the investors, and such policies shall maintain continuity and stability;

(2) the Company may distribute dividends in cash, shares or a combination of cash and shares, and it shall distribute dividends mainly in cash. Subject to compliance with prevailing laws, regulations and the requirements of relevant regulatory authority on the capital adequacy ratio, as well as the requirements of general working capital, business development and the need for substantial investment, merger and acquisition plans of the Company, the cash dividend to be distributed by the Company to shareholders of ordinary shares each year in principle shall not be less than 30% of the net profit after taxation attributable to shareholders of ordinary shares audited in accordance with the PRC accounting standards for that year. The Company may pay interim cash dividend. Unless another resolution is passed at the shareholders' general meeting, the Board of Directors shall be authorized by the shareholder at a general meeting to approve the interim profit appropriation plan;

(3) if the Company generated profits in the previous accounting year but the Board of Directors did not make any cash profit appropriation proposal after the end of the previous accounting year, the Company shall state the reasons for not distributing the profit and the usage of the profit retained in the periodic report and the Independent Directors shall give an independent opinion in such regard;

(4) if the Board of Directors considers that the price of the shares of the Company does not match the size of share capital of the Company or where the Board of Directors considers necessary, the Board of Directors may propose a profit appropriation plan in the form of shares and implement the same upon consideration and approval at a general meeting, provided that the abovementioned cash profit appropriation requirements are satisfied;

(5) the Company shall pay cash dividends and other amounts to holders of domestic shares listed domestically and such sums shall be calculated, declared and paid in Renminbi. The Company shall pay cash dividends and other amounts to holders of H Shares and such sums shall be calculated and declared in Renminbi and paid in Hong Kong dollars. The foreign currencies required by the Company for payment of cash dividends and other sums to shareholders of overseas listed foreign shares shall be handled according to the relevant requirements of foreign exchange administration of the State;

(6) where appropriation of the Company's fund by a shareholder, which is in violation of relevant rules, has been identified, the Company shall make deduction against the cash dividend to be paid to such shareholder, and such amount shall be used as the reimbursement of the funds appropriated; and

(7) the Company shall disclose the implementation progress of the cash dividend policy and other relevant matters in its periodic reports in accordance with the applicable requirements.

2. During the reporting period, the profit appropriation plan of the Company for 2018 was implemented in strict accordance with the relevant provisions of the Articles of Association of China Merchants Bank Co., Ltd.. It was considered and approved by the 40th meeting of the Tenth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2018 Annual General Meeting. The criteria and proportion of cash dividend were clear and specific, and the Board of Directors of the Company has implemented the profit appropriation plan. The profit appropriation plan of the Company for 2019 will also be implemented in strict accordance with the relevant provisions of the Articles of Association of China Merchants Bank Co., Ltd.. It will be considered and approved by the 9th meeting of the Eleventh Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2019 Annual General Meeting of the Company. The Independent Directors of the Company have expressed their independent opinions on the profit appropriation plans for 2018 and 2019 that the profit appropriation plans of the Company and their implementation process have provided adequate protection for the legitimate rights and interests of minority investors.

3.13 Requirements of the Environmental, Social and Governance Reporting Guide

During the reporting period, adhering to the social responsibility principle of "Gain from society and contribute to society", the Company actively made contribution and fulfilled its social responsibilities on target poverty alleviation, green loans, support to SMEs, protection of consumers' interests, public welfare and employee care. For more details, please refer to the "Corporate Social Responsibility Report of China Merchants Bank for 2019", which is available on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company. The relevant disclosures are in compliance with the requirements of the Environmental, Social and Governance Reporting Guide issued by the Hong Kong Stock Exchange.

3.14 Compliance with Relevant Laws and Regulations

So far as the Board of Directors is aware, during the reporting period, the Company has complied in all material respects with the relevant laws and regulations that have a significant impact on the operations of the Company.

3.15 Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the year.

3.16 Permitted Indemnity Provision

The Company has maintained appropriate insurance coverage for the liabilities of the Directors, Supervisor and senior management in respect of legal actions against its Directors, Supervisor and senior management arising out of corporate activities.

By order of the Board of Directors

Li Jianhong

Chairman of the Board of Directors

20 March 2020

Simple Work Style

“

Keep to the point and save time.

Do not bother over-embellishing PowerPoints.

”

Important Events

4.1 Principal Business Activities

The Company is engaged in banking and related financial services.

4.2 Financial Highlights

Details are set out in Chapter II Summary of Accounting Data and Financial Indicators.

4.3 Shareholders' Equity

For details of changes in shareholders' equity of the Company, please refer to the "Consolidated Statement of Changes in Shareholders' Equity" in the financial statements.

4.4 Fixed Assets

Changes in fixed assets of the Company as at the end of the reporting period are detailed in Note 28 to the financial statements.

4.5 Purchase, Sale or Repurchase of Listed Securities of the Company

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

4.6 Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association of the Company and the shareholders of the Company have not been granted any pre-emptive rights.

4.7 Retirement and Welfare

Details about retirement and welfare provided by the Company to its employees are detailed in Note 39 to the financial statements.

4.8 Principal Customers

As at the end of the reporting period, the net operating income contributed by the top 5 customers of the Company did not exceed 30% of the total net operating income of the Company.

4.9 Interests and Short Positions of Directors, Supervisors and Chief Executives under Hong Kong Laws and Regulations

As at 31 December 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), 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 the 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 the total issued ordinary shares (%)
Tian Huiyu	Executive Director, President and Chief Executive Officer	A Share	Long position	Beneficial Owner	220,400	0.00107	0.00087
Zhou Song	Non-Executive Director	A Share	Long position	Interest of spouse	23,282	0.00011	0.00009
Liu Jianjun	Executive Director, Executive Vice President and Secretary of Board of Directors	A Share	Long position	Beneficial Owner	160,000	0.00078	0.00063
Wang Liang	Executive Director, Executive Vice President and Chief Financial Officer	A Share	Long position	Beneficial Owner	160,000	0.00078	0.00063
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	121,000	0.00059	0.00048
Liu Xiaoming	Employee Supervisor	A Share	Long position	Beneficial Owner	100,000	0.00048	0.00040

4.10 Directors' Interests in the Businesses Competing with Those of the Company

So far as the Company is aware, none of the Directors of the Company has any interests in the businesses which compete or are likely to compete, either directly or indirectly, with those of the Company.

4.11 Financial, Business and Kinship Relations among Directors, Supervisors and Senior Management

Save as disclosed herein, the Company is not aware that there has been any financial, business, kinship or other material or connected relations among the Directors, Supervisors and senior management of the Company.

4.12 Contractual Rights and Service Contracts of Directors and Supervisors

So far as the Company is aware, during the reporting period, the Directors and Supervisors of the Company have no material interests in contracts of significance to which the Company or any of its subsidiaries was a party. None of the Directors and Supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (excluding statutory compensation).

4.13 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 persons, or been publicly censured by any stock exchange. The Company has not been penalised by other regulatory bodies which have significant impact on the businesses of the Company.

4.14 Explanation on the Integrity Profile of the Company

So far as the Company is aware, there has not been any court judgment over significant litigations with which the Company has not fulfilled, nor has there been any outstanding debt of significant amount during the reporting period.

4.15 Undertakings Made by the Company, Directors, Supervisors, Senior Management and Other Connected Persons

In the course of the rights issue of A shares and H shares in 2013, each of China Merchants Group Ltd., China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司) (now renamed as China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司)) and China Ocean Shipping (Group) Company (now renamed as China Ocean Shipping Company Limited) had undertaken that they would not seek for related party transactions on terms more favorable than those given to other shareholders; they would repay the principal and interest of the loans granted by the Company on time; they would not interfere with the daily operations of the Company. Upon expiration of the lock-up period of the allocated shares, they would not transfer their allocated shares until they obtain the approval from the regulatory authorities on the share transfer and the shareholder qualification of transferees; and upon obtaining the approval from the Board of Directors and the shareholders' general meeting of the Company, they would continue to support the reasonable capital needs of the Company; they would not impose unreasonable performance indicators on the Company. For details, please refer to the A Share Rights Issue Prospectus dated 22 August 2013 on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company. So far as the Company is aware, as at the end of the reporting period, the above shareholders had not violated the aforesaid undertakings.

According to the relevant requirements of the CSRC, the Company considered and approved the "Resolution Regarding the Dilution of Current Returns by the Non-public Issuance of Preference Shares and the Remedial Measures" at its 2016 Annual General Meeting on 26 May 2017, and formulated the remedial measures in respect of the dilution of current returns of the holders of ordinary shares which may be caused by the non-public issuance of preference shares. The measures include adhering to the strategic direction of "Light-operation Bank" and the strategic positioning of "One Body with Two Wings", creating differentiated competitive advantages, strengthening the awareness of capital constraints and return on capital, striving to reduce capital consumption, improving the efficiency of capital utilisation, strengthening the management of asset quality, and maintaining a stable return policy for the holders of ordinary shares. Meanwhile, the Directors and senior management of the Company also undertook to earnestly implement the remedial measures. So far as the Company is aware, as at the end of the reporting period, neither the Company nor its Directors and senior management had breached any of the aforesaid undertakings.

4.16 Significant Connected Transactions[16]

4.16.1 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.

4.16.2 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"), and CM Securities and its associates (hereinafter referred to as "CM Securities 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 were RMB2.5 billion, RMB3.8 billion and RMB5.8 billion, respectively. 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 were RMB500 million. For details of the above continuing connected transactions, please refer to the relevant announcements issued by the Company on 13 December 2016 and 27 March 2018, respectively.

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 the continuing connected transactions 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 shall 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 not more 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.

In 2019, the continuing connected transactions between the Company and CMFM Group amounted to RMB1.081 billion.

The Company and CMFM entered into the new Fund Business Co-operation Agreement on 3 December 2019 for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022. The agreement was entered into on an arm's length basis and calculated on normal commercial terms. CMFM Group shall calculate fees based on the rates specified in the fund offering documents and/or the offering prospectuses, and pay agency service fees to the Company in accordance with the agreement. For details of the Fund Business Co-operation Agreement, please refer to the relevant announcement of the Company dated 3 December 2019.

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

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 interests held, right of control or relationship of parties acting in concert). As China Merchants Group also held 44.09% of the equity interest in CM Securities, CM Securities Group is a connected person of the Company under the Hong Kong Listing Rules. The third-party custodian accounts, sales of funds, account custodian, the agency sales for wealth management products and collective investment products and other services provided by the Company to CM Securities Group constituted the 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 principles 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 not more 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.

In 2019, the continuing connected transactions between the Company and CM Securities Group amounted to RMB84 million.

4.16.3 Confirmation from the Independent Non-Executive Directors and auditors

The Independent Non-Executive Directors of the Company have reviewed the above-mentioned non-exempt continuing connected transactions between the Company and each of CMFM Group and CM Securities Group and confirmed that:

1. The transactions were entered into in the ordinary and usual course of business of the Company;
2. The terms of the transactions are fair and reasonable, and are in the interest of the Company and its shareholders as a whole;
3. The transactions were entered into on normal commercial terms or better terms;
4. The transactions were conducted in accordance with the terms of relevant agreements.

Furthermore, the Company has engaged Deloitte Touche Tohmatsu to review the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board of Directors has confirmed the findings, conclusions and the unqualified letter issued by Deloitte Touche Tohmatsu in respect of the aforesaid continuing connected transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules. A copy of the letter has been provided by the Company to the SEHK.

4.16.4 Significant transactions with related parties

The significant transactions between the Company and related parties are set out in note 61 to the financial statements. These transactions comprised those between the Company and its related parties in its ordinary course of business, including borrowings, investments, deposits, securities trading, agency services, custody and other fiduciary operations as well as off-balance sheet transactions. These transactions were conducted on normal commercial terms in the ordinary course of business of the Company, which constituted the connected transactions under the Hong Kong Listing Rules and complied with the applicable requirements thereof.

4.17 Material Litigations and Arbitrations

Several litigations 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 213 pending cases (including litigations and arbitrations) in which the Company was involved, with an aggregate of principal and interest of RMB1.204 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.

4.18 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 banks.

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, the Company did not have any other significant discloseable guarantees.

Explanatory notes and independent opinions of the Independent Non-Executive Directors on the guarantees of China Merchants Bank

In accordance with the relevant requirements of the CSRC and Shanghai Stock Exchange, the Independent Non-Executive Directors of the Company carried out a due diligence review of the external guarantees of the Company for 2019 on an open, fair and objective basis, and issued their opinions on the special review as follows:

After review, it was ascertained that the external guarantee business of China Merchants Bank was approved by the CBIRC, and it was carried out in the ordinary course of business of banks as a conventional business. As at 31 December 2019, the balance of the irrevocable guarantees of China Merchants Bank was RMB201.427 billion.

China Merchants Bank emphasises the risk management of the guarantee business. It has formulated specific management measures and operation workflow according to the risk profile of this business. In addition, China Merchants Bank has enhanced risk monitoring and safeguarded this business through management means such as on-site and off-site inspections. During the reporting period, the guarantee business of China Merchants Bank had been in normal operation and there were no non-compliant guarantees.

4.19 Use of Funds by Related Parties

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. Deloitte Touche Tohmatsu Certified Public Accountants LLP, being the auditor of the Company, has issued a special audit opinion in this regard.

4.20 Information on Significant Equity Investments

The Company obtained the approval from the CBIRC in November 2019 for the commencement of business of CMB Wealth Management, a wholly-owned subsidiary of the Company. At present, CMB Wealth Management has officially commenced operation. For details, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

4.21 Appointment of Accounting Firms and Sponsors

According to its resolutions passed at the 2018 Annual General Meeting, 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 Deloitte Touche Tohmatsu as the international accounting firm of the Company and its overseas subsidiaries for 2019. These two accounting firms have been engaged as auditors of the Company since 2016. Zeng Hao and Zhu Wei are the certified public accountants who signed the audit report on the Company's financial statements for 2019 prepared in accordance with the PRC Generally Accepted Accounting Principles, who have been serving as the public accountants signing the financial statements of the Company since 2016 and 2017, respectively.

The financial statements of the Company for 2019 prepared under the PRC Generally Accepted Accounting Principles and the internal control of the Company as at the year end of 2019 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, and the financial statements for 2019 prepared under International Accounting Standards were audited by Deloitte Touche Tohmatsu. The total audit fees amounted to approximately RMB23.93 million, among which the audit fees for internal control was approximately RMB1.34 million. The Company paid the total non-audit fees of approximately RMB12.20 million to Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu for the current year. Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu confirmed that the provision of such non-audit services would not compromise their audit independence.

The Company has appointed UBS Securities Co., Ltd. and CM Securities as its sponsors for the non-public issuance of domestic preference shares since 2017, and the period of their continuous supervision over the Company had expired on 31 December 2019. The Company paid all the remuneration (including sponsorship and underwriting fees) to its sponsors in 2018.

4.22 Review of Annual Results

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu, the external auditors of the Company, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and each has issued an unqualified audit report. The Audit Committee under the Board of Directors of the Company has reviewed the Company's annual report for 2019.

4.23 Annual General Meeting

For the convening of its 2019 Annual General Meeting, the Company will make further announcement.

4.24 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 3 "Application of new and amendments to IFRSs" to the financial statements.

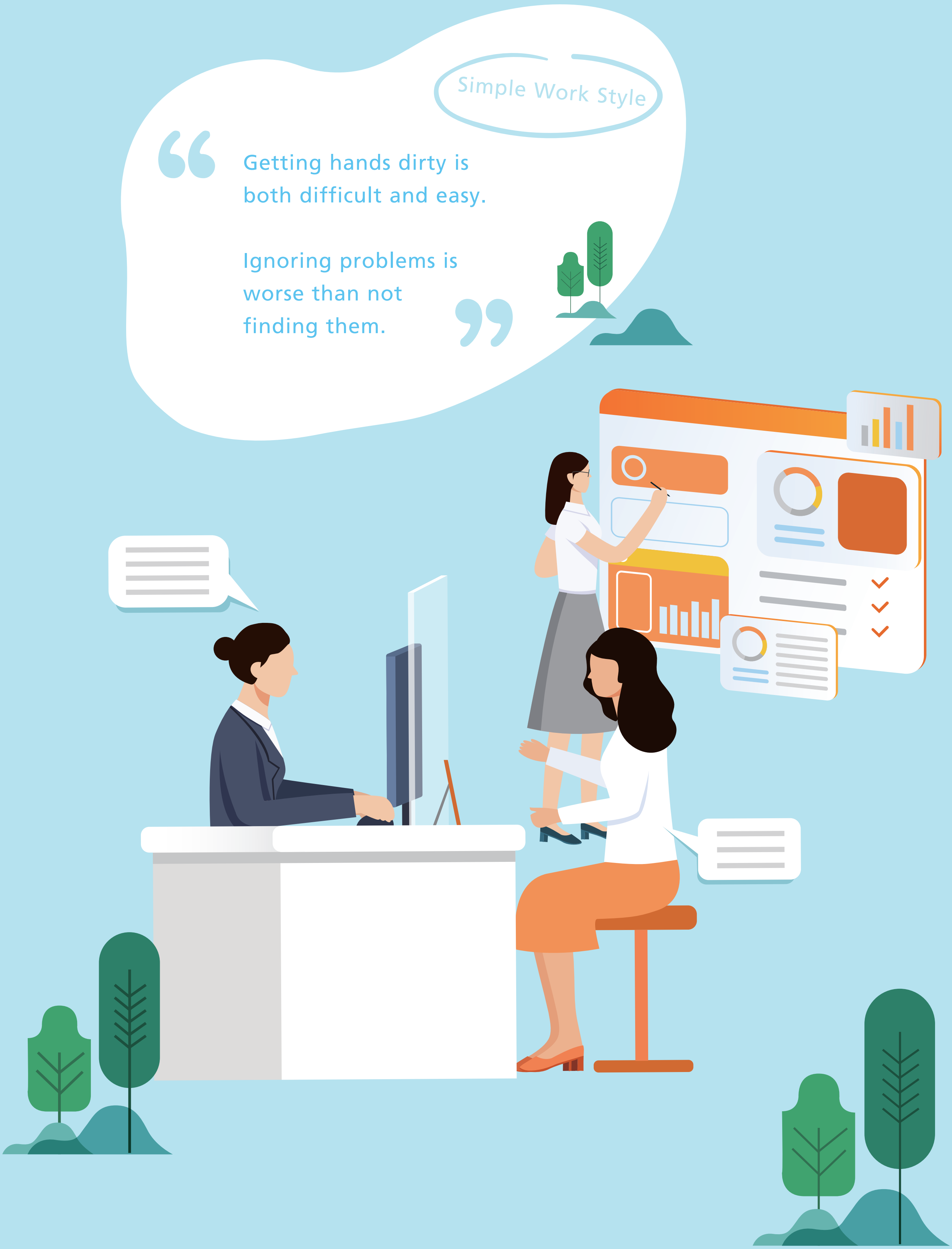
4.25 Post-balance Sheet Events

The COVID-19 pandemic started to break out across the country in January 2020. It is expected that in a short period of time, it will have a significant impact on the operation of enterprises in certain provinces, especially Hubei Province, cities and certain industries, as well as the overall economic situation, which may in turn affect the return on equity or asset quality of the credit assets and investment assets of the Company to some extent, depending on the situation and duration of the fight against the pandemic, the implementation of various regulatory policies and other factors.

4.26 Publication of Annual Report

The Company prepared its annual report in both English and Chinese versions in accordance with the International Accounting Standards and the Hong Kong Listing Rules, which 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 its annual report in Chinese version in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for annual reports, which is available on the websites of Shanghai Stock Exchange and the Company.


Simple Work Style
Getting hands dirty is both difficult and easy.
Ignoring problems is worse than not finding them.

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	31 December 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 263,863 shareholders, including 231,096 holders of A Shares and 32,767 holders of H Shares. Neither the holders of A Shares nor the holders of H Shares are subject to trading moratorium.

As at the end of the previous month prior to the disclosure date of this report (i.e. 29 February 2020), the Company had a total of 355,287 shareholders, including 322,658 holders of A Shares and 32,629 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 shareholders	Type of shareholders	Shares held at the end of the period (share)	Percentage of the 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	4,548,278,354	18.03	H Shares not subject to trading moratorium	1,798,685	–	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	–	–	–

Serial No.	Name of shareholders	Type of shareholders	Shares held at the end of the period (share)	Percentage of the 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)
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	Hong Kong Securities Clearing Company Limited	Overseas legal person	1,017,326,161	4.03	A Shares not subject to trading moratorium	331,710,060	–	–
9	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	–	–	–
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 China Merchants Bank trading on the transaction platform of HKSCC Nominees Ltd.. Hong Kong Securities Clearing Company Limited is an institution designated by others to hold shares on behalf of them as a nominal holder, and the shares held by it are the shares of China Merchants Bank acquired by investors through Shanghai-Hong Kong Stock Connect.

(2) Pursuant to the approval by CBIRC, Anbang Life Insurance Co., Ltd. has been renamed as Dajia Life Insurance Co., Ltd. and its controlling shareholder has been changed from Anbang Insurance Group Co., Ltd. to Dajia Insurance Group Co., Ltd.. The change of the names of its shareholders' accounts is still subject to completion of relevant procedures at China Securities Depository & Clearing Corporation Ltd., Shanghai Branch. For details, please refer to the announcement of the Company dated 28 August 2019.

(3) As at the end of the 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 all subsidiaries of China Merchants Group Ltd.; the ultimate controlling shareholder of both Hexie Health Insurance Co., Ltd. and Dajia Life Insurance Co., Ltd. is China Insurance Security Fund Co., Ltd.. The Company is not aware of any affiliated relationship or action in concert among other shareholders.

(4) The above holders of A Shares did not hold the shares of the Company through credit securities accounts.

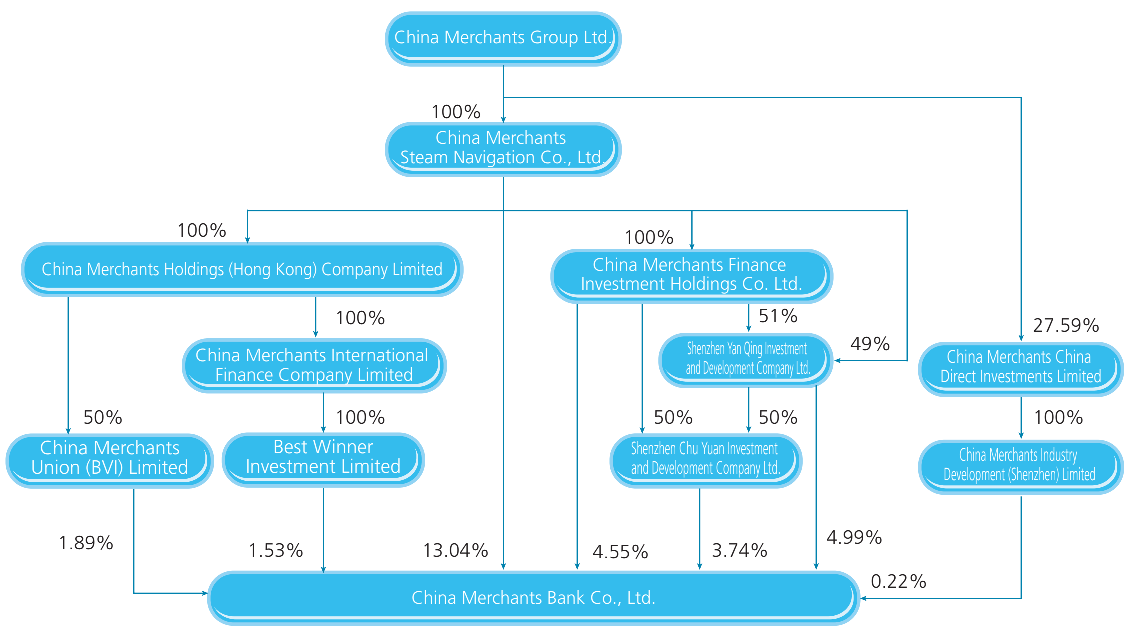
5.3 Information on Substantial Ordinary Shareholders

5.3.1 Information on the Company's largest shareholder

As at the end of the reporting period, China Merchants Group Ltd., through its subsidiaries, namely China Merchants Steam Navigation Co., Ltd., China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., Shenzhen Chu Yuan Investment and Development Company Ltd., China Merchants Union (BVI) Limited, Best Winner Investment Limited and China Merchants Industry Development (Shenzhen) Limited, indirectly held an aggregate of 29.97% shares in the Company. There was no pledge of the shares of the Company. Among which, China Merchants Steam Navigation Co., Ltd. directly held 13.04% shares in the Company, and is the largest shareholder of the Company. China Merchants Steam Navigation Co., Ltd. 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 equipment, 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. directly holds 100% equity interests in China Merchants Steam Navigation Co., Ltd. and is the controlling shareholder of the Company's largest shareholder, 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 (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. As at the end of the reporting period, Hexie Health Insurance Co., Ltd. and Dajia Life Insurance Co., Ltd. each held 4.99% shares in the Company, so that they held an aggregate of 9.98% shares in the Company, and did not pledge any of its shares in the Company. In particular:

   (1) The controlling shareholder of Hexie Health Insurance Co., Ltd. is Anbang Insurance Group Co., Ltd.. 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 billion, 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 business permitted under the PRC laws and regulations; the insurance business permitted under the PRC laws and regulations; and other businesses approved by the CBIRC.

   (2) Dajia Life Insurance Co., Ltd. is formerly known as Anbang Life Insurance Co., Ltd. before change of name, and its controlling shareholder is Dajia Insurance Group Co., Ltd.. On 23 August 2019, pursuant to the approval by the CBIRC, Anbang Life Insurance Co., Ltd. was renamed as Dajia Life Insurance Co., Ltd. and its controlling shareholder was changed from Anbang Insurance Group Co., Ltd. to Dajia Insurance Group Co., Ltd.. The controlling shareholder of Dajia 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. Dajia Insurance Group Co., Ltd. was established on 25 June 2019, with a registered capital of RMB20.36 billion, and its legal representative is He Xiaofeng. The scope of its businesses includes: investments in and holding of the shares of insurance enterprises and other financial institutions; supervision and management of various domestic and international businesses of the enterprises under control with its investment; the investment business and insurance fund utilisation business permitted under the PRC laws and regulations; the insurance business permitted by the CBIRC; and other businesses approved by the CBIRC and other relevant authorities of the PRC.

2. As at the end of the reporting period, China COSCO Shipping Corporation Limited indirectly held an aggregate of 9.97% shares in the Company through its subsidiaries, namely 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). There was no pledge of the shares of the Company. Among which, 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 held 100% equity interests in China Ocean Shipping Company Limited and is its controlling shareholder. Its de facto controller is the 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. The scope of its businesses includes: international shipping; ancillary business in international maritime transportation; imports and exports of goods and technology; marine, land, aviation international freight forwarding business; ship leasing; sales of ships, containers and steel products; offshore engineering equipment design; terminal and port investment; communication equipment sales, information and technical services; warehousing (except hazardous chemicals); engaged in technology development, technology transfer, technical consulting, technical services and equity investment funds in the field of shipping and spare parts.

5.3.3 Other substantial shareholders under the regulatory calibre

1. As at the end of the reporting period, China Communications Construction Group (Limited) 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. indirectly held an aggregate of 1.68% shares in the Company, and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. China Communications Construction Group (Limited) was established on 8 December 2005, with a registered capital of RMB7.274 billion, and its legal representative is Liu Qitao. Its de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council.

2. As at the end of the reporting period, SAIC Motor Corporation Limited held 1.23% shares in the Company and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. SAIC Motor Corporation Limited was established on 16 April 1984, with a registered capital of RMB11.683 billion, and its legal representative is Chen Hong. Its de facto controller is the State-owned Assets Supervision and Administration Commission of Shanghai City.

3. As at the end of the reporting period, Hebei Port Group Co., Ltd. held 1.17% shares in the Company and is a shareholder which has appointed a Supervisor in the Company. There was no pledge of the shares of the Company. Hebei Port Group Co., Ltd. was established on 28 August 2002, with a registered capital of RMB8.0 billion. Its legal representative is Cao Ziyu and its 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 the section headed "Preference Shares" of this chapter.

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' interests and short positions in the Company under Hong Kong laws and regulations

As at 31 December 2019, as far as the Company is aware, substantial shareholders had interests and short positions in the shares of the Company under Hong Kong laws and regulations 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
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Finance Investment Holdings Co., Ltd.	A	Long	Beneficial owner	1,147,377,415			
		Long	Interest of controlled corporation	2,202,555,520			
		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

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 (%)
Hexie Health Insurance Co., Ltd.	A	Long	Beneficial owner	1,258,949,171		6.10	4.99
Anbang Property & Casualty Insurance Company Ltd.	A	Long	Interest of controlled corporation	1,258,949,171		6.10	4.99
Anbang Insurance Group Co., Ltd.	A	Long	Interest of controlled corporation	1,258,949,171		6.10	4.99
Dajia Life Insurance Co., Ltd.	A	Long	Beneficial owner	1,258,949,100		6.10	4.99
Dajia Insurance Group Co., Ltd.	A	Long	Interest of controlled corporation	1,258,949,100		6.10	4.99
China Ocean Shipping Company Limited	A	Long	Beneficial owner	1,574,729,111		7.63	6.24
Pagoda Tree Investment Company Limited (中國華馨投資有限公司)	H	Long	Interest of controlled corporation	477,903,500	2	10.41	1.89
Compass Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	2	10.41	1.89
CNIC Corporation Limited	H	Long	Interest of controlled corporation	477,903,500	2	10.41	1.89
Verise Holdings Company Limited	H	Long	Interest of controlled corporation	477,903,500	2	10.41	1.89
China Merchants Union (BVI) Limited	H	Long	Beneficial owner	477,903,500	2	10.41	1.89
BlackRock, Inc.	H	Long	Interest of controlled corporation	243,190,481	3	5.30	0.96
		Short	Interest of controlled corporation	408,000	3	0.01	0.00
Citigroup Inc.	H	Long	Interest of controlled corporation	24,375,639			
		Long	Approved lending agent	300,827,276			
				325,202,915	4	7.08	1.29
		Short	Interest of controlled corporation	2,278,349	4	0.04	0.01

Notes:

(1) For details of China Merchants Group Ltd. and its subsidiaries' interests in the Company, please refer to section 5.3.1 "Information on the Company's largest shareholder".

(2) 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:

(2.1) 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.

(2.2) 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.

(2.3) Compass Investment Company Limited (referred to in (2) above) 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.

The 477,903,500 H shares referred to in (2) and (2.1) to (2.3) above represented the same shares.

(3) BlackRock, Inc. was deemed to hold a total of 243,190,481 H shares (long position) and 408,000 H shares (short position) in the Company (of which 55,500 H shares (long position) and 260,500 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:

(3.1) BR Jersey International Holdings L.P. was indirectly held as to 86% by BlackRock, Inc.. BR Jersey International Holdings L.P. held interests in the Company through the following companies:

(3.1.1) BlackRock Japan Co., Ltd. (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 18,909,018 H shares (long position) in the Company.

(3.1.2) BlackRock Asset Management Canada Limited held 547,500 H shares (long position) in the Company. BlackRock Asset Management Canada Limited was indirectly owned as to 99.9% by BR Jersey International Holdings L.P..

(3.1.3) BlackRock Investment Management (Australia) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 1,403,000 H shares (long position) in the Company.

(3.1.4) BlackRock Asset Management North Asia Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 2,449,740 H shares (long position) in the Company.

(3.1.5) BlackRock (Singapore) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 6,500 H shares (long position) in the Company.

(3.2) BlackRock Group Limited was held as to 90% by BR Jersey International Holdings L.P. (referred to in (3.1) above). BlackRock Group Limited held its interests in the Company through its direct or indirect wholly-owned companies as follows:

(3.2.1) BlackRock (Netherlands) B.V. held 497,500 H shares (long position) in the Company.

(3.2.2) BlackRock Advisors (UK) Limited held 379,000 H shares (long position) in the Company.

(3.2.3) BlackRock International Limited held 418,161 H shares (long position) in the Company.

(3.2.4) BlackRock Asset Management Ireland Limited held 25,867,784 H shares (long position) in the Company.

(3.2.5) BLACKROCK (Luxembourg) S.A. held 13,257,792 H shares (long position) in the Company.

(3.2.6) BlackRock Investment Management (UK) Limited held 12,375,237 H shares (long position) in the Company.

(3.2.7) BlackRock Asset Management Deutschland AG held 240,731 H shares (long position) in the Company.

(3.2.8) BlackRock Fund Managers Limited held 5,830,371 H shares (long position) in the Company.

(3.2.9) BlackRock Life Limited held 2,439,062 H shares (long position) in the Company.

(3.2.10) BlackRock Asset Management (Schweiz) AG held 31,500 H shares (long position) in the Company.

(3.3) BlackRock Holdco 6, LLC was indirectly held as to 90% by BlackRock, Inc.. BlackRock Holdco 6, LLC held its interests in the Company through its direct or indirect wholly-owned companies as follows:

(3.3.1) BlackRock Fund Advisors held 103,839,388 H shares (long position) in the Company.

(3.3.2) BlackRock Institutional Trust Company, National Association held 47,087,775 H shares (long position) and 408,000 H shares (short position) in the Company.

(4) Citigroup Inc. was deemed to hold a total of 325,202,915 H shares (long position) and 2,278,349 H shares (short position) in the Company by virtue of its control over a number of companies. The equity interests and short positions of Citigroup Inc. in the Company included a lending pool of 300,827,276 H shares. Besides, 5,611,728 H shares (long position) and 2,138,349 H shares (short position) were held through derivatives as follows:

133,475 H shares (long position) and 2,000,000 H shares (short position)	– through physically settled listed derivatives
432,253 H shares (long position) and 51,849 H shares (short position)	– through physically settled unlisted derivatives
5,046,000 H shares (long position) and 86,500 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 31 December 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, has 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. The net proceeds after deduction of the expenses relating to the issuance, has 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 holders of preference shares and their shareholdings

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

As at the end of the previous month (i.e. 29 February 2020) preceding the date for disclosure of this report, the Company had a total of 13 holders of preference shares (or nominees), including 1 holder of offshore preference shares (or its nominee), and 12 holders of domestic preference shares.

As at the end of the reporting period, the shareholdings of the Company's top ten holders 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 share	–	50,000,000	100	–	Unknown

Notes: (1) The shareholdings of holders of preference shares are calculated based on the information listed in the register of holders of preference shares maintained by the Company.

(2) As the issuance is an offshore non-public issuance, the information listed in the register of holders 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 holders of preference shares and the top ten holders of ordinary shares.

(4) "Percentage of shareholdings" represents the percentage of the number of offshore preference shares held by the holders 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 holders of domestic preference shares 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	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	–	–
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 holders 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 holders of preference shares or between the above holders of preference shares and the Company's top ten holders of ordinary shares.

(3) "Percentage of shareholdings" represents the percentage of the number of domestic preference shares held by the holders of preference shares to the total number of domestic preference shares.

5.6.3 Dividend distribution of preference shares

Dividend distribution of offshore preference shares

In accordance with the relevant requirements under the "Resolution Regarding the Plan for the Non-public Issuance of Offshore Preference Shares of the Company", which was considered and approved at the 2016 annual general meeting, the first class meeting of the holders of A Shares for 2017 and the first class meeting of the holders of H Shares for 2017, the Company fully paid the dividends for offshore preference shares on 25 October 2019, which was in compliance with the relevant distribution conditions and distribution procedures.

The dividends for offshore preference shares of the Company are paid once a year in cash. The offshore preference shares adopt non-cumulative dividend payment method. After the dividends are distributed to the holders of offshore preference shares in accordance with the agreed dividend rate, these shareholders will not participate in the remaining profit distribution with the ordinary shareholders. Pursuant to the relevant terms of the offshore preference shares, the dividend rate per annum of the offshore preference shares is 4.40% (excluding tax, i.e., the actual dividend yield to be received by the holders of the preference shares is 4.40%). According to relevant laws and regulations, the Company shall withhold an income tax at a rate of 10% when distributing the dividends for the offshore preference shares to the offshore non-resident enterprises. According to the terms and conditions of the offshore preference shares, the Company is responsible to pay relevant income tax. Total amount of the proceeds from the issuance of the Company's offshore preference shares was USD1 billion, the total amount of dividends for the offshore preference shares is USD48,888,888.89, comprising of USD44,000,000.00 which was actually paid to the holders of the offshore preference shares, and the withholding tax amounted to USD4,888,888.89.

Dividend distribution of domestic preference shares

In accordance with the relevant requirements under the "Resolution Regarding the Plan for the Non-public Issuance of Domestic Preference Shares of the Company", which was considered and approved at the 2016 annual general meeting, the first class meeting of the holders of A Shares for 2017 and the first class meeting of the holders of H Shares for 2017, the Company fully paid the dividends for domestic preference shares on 18 December 2019, which was in compliance with the relevant distribution conditions and distribution procedures.

The dividends for domestic preference shares of the Company are paid once a year in cash. The domestic preference shares adopt non-cumulative dividend payment method. After the dividends are distributed to the holders of domestic preference shares in accordance with the agreed dividend rate, these shareholders will not participate in the remaining profit distribution with the ordinary shareholders. Pursuant to the terms of dividends payment for domestic preference shares, based on the dividend rate of 4.81% for domestic preference shares, the dividends per preference share paid were RMB4.81 (including tax), and based on 275 million of domestic preference shares in issue, the total amount of the dividends paid was RMB1,322.75 million (including tax).

For the details of dividend distribution for domestic and offshore preference shares, please refer to the relevant announcements published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 10 December 2019 and 15 October 2019, respectively.

5.6.4 Repurchase or conversion of preference shares

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

5.6.5 Restored voting rights of preference shares

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

5.6.6 Accounting policies for preference shares and the reason of adoption

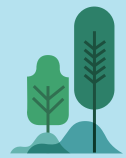
The Company made accounting judgments over its preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the "International Financial Reporting Standard 9 – Financial Instruments" and the "International Financial Reporting Standard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

Simple Work Style

"Don't look down on juniors. Don't kiss up to seniors.

Fear not for opposition, fear for silence.

You are respected for your capacity to create, not for your authority to dictate."



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)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether having received remunerations from the related parties of the Company during the reporting period
Li Jianhong	Male	1956.5	Chairman	2014.8 – 2022.6	–	–	–	Yes
			Non – Executive Director	2014.7 – 2022.6				
Fu Gangfeng	Male	1966.12	Vice Chairman	2018.7 – 2022.6	–	–	–	Yes
			Non – Executive Director	2010.8 – 2022.6				
Tian Huiyu	Male	1965.12	Executive Director	2013.8 – 2022.6	110,000	220,400	465.83	No
			President and Chief Executive Officer	2013.9 – 2022.6				
Zhou Song	Male	1972.4	Non – Executive Director	2018.10 – 2022.6	–	–	–	Yes
Hong Xiaoyuan	Male	1963.3	Non – Executive Director	2007.6 – 2022.6	–	–	–	Yes
Zhang Jian	Male	1964.10	Non – Executive Director	2016.11 – 2022.6	–	–	–	Yes
Su Min	Female	1968.2	Non – Executive Director	2014.9 – 2022.6	–	–	–	Yes
Wang Daxiong	Male	1960.12	Non – Executive Director	2016.11 – 2022.6	–	–	–	Yes
Luo Sheng	Male	1970.9	Non – Executive Director	2019.7 – 2022.6	–	–	–	No
Liu Jianjun	Male	1965.8	Executive Director	2019.8 – 2022.6	80,000	160,000	339.81	No
			Executive Vice President	2013.12 – 2022.6				
			Secretary of Board of Directors	2019.7 – 2022.6				
Wang Liang	Male	1965.12	Executive Director	2019.8 – 2022.6	80,000	160,000	339.83	No
			Executive Vice President	2015.1 – 2022.6				
			Chief Financial Officer	2019.4 – 2022.6				
Leung Kam Chung, Antony	Male	1952.1	Independent Non – Executive Director	2015.1 – (note 1)	–	–	50.00	No
Zhao Jun	Male	1962.9	Independent Non – Executive Director	2015.1 – (note 1)	–	–	50.00	No
Wong See Hong	Male	1953.6	Independent Non – Executive Director	2017.2 – 2022.6	–	–	50.00	No
Li Menggang	Male	1967.4	Independent Non – Executive Director	2018.11 – 2022.6	–	–	50.00	No
Liu Qiao	Male	1970.5	Independent Non – Executive Director	2018.11 – 2022.6	–	–	50.00	No
Tian Hongqi	Male	1957.5	Independent Non – Executive Director	2019.8 – 2022.6	–	–	20.30	No
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8 – 2022.6	90,000	180,000	381.81	No
Peng Bihong	Male	1963.10	Shareholder Supervisor	2019.6 – 2022.6	–	–	–	Yes
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2016.6 – 2022.6	–	–	–	Yes
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6 – 2022.6	–	–	–	Yes
Ding Huiping	Male	1956.6	External Supervisor	2016.6 – 2022.6	–	–	40.00	No
Han Zirong	Male	1963.7	External Supervisor	2016.6 – 2022.6	–	–	40.00	No
Xu Zhengjun	Male	1955.9	External Supervisor	2019.6 – 2022.6	–	–	20.00	No
Wang Wanqing	Male	1964.9	Employee Supervisor	2018.7 – 2022.6	60,000	121,000	290.58	No
Liu Xiaoming	Male	1963.11	Employee Supervisor	2019.6 – 2022.6	50,000	100,000	141.85	No
Tang Zhihong	Male	1960.3	Executive Vice President	2006.5 – 2022.6	80,000	241,400	339.27	No

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)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether having received remunerations from the related parties of the Company during the reporting period
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7 – present	80,000	160,000	339.81	No
Wang Jianzhong	Male	1962.10	Executive Vice President	2019.4 – 2022.6	80,000	162,100	339.81	No
Shi Shunhua	Male	1962.12	Executive Vice President	2019.4 – 2022.6	85,000	165,000	339.27	No
Wang Yungui	Male	1963.6	Executive Vice President	2019.6 – 2022.6	–	160,000	248.38	No
Li Delin	Male	1974.12	Executive Assistant President	2019.4 – present	60,000	130,000	223.09	No
Liu Hui	Female	1970.5	Executive Assistant President	2019.4 – present	55,000	134,100	223.41	No
Sun Yueying	Female	1958.6	Former Non – Executive Director	2001.4 – 2019.6	–	–	–	Yes
Li Hao	Male	1959.3	Former Executive Director, First Executive Vice President and Chief Financial Officer	2007.6 – 2019.4	100,000	200,000	141.20	No
Pan Chengwei	Male	1946.2	Former Independent Non – Executive Director	2012.7 – 2019.8	–	–	29.70	No
Fu Junyuan	Male	1961.5	Former Shareholder Supervisor	2015.9 – 2019.2	–	–	–	Yes
Jin Qingjun	Male	1957.8	Former External Supervisor	2014.10 – 2019.6	65,800	65,800	20.00	No
Huang Dan	Female	1966.6	Former Employee Supervisor	2015.3 – 2019.6	45,000	90,000	73.62	No
Zhu Qi	Male	1960.7	Former Executive Vice President	2008.12 – 2019.2	–	–	–	No
Zhao Ju	Male	1964.11	Former Executive Vice President	2015.2 – 2019.2	–	–	–	No

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) As at the end of the reporting period, the spouse of Mr. Zhou Song held 23,282 A shares in the Company.

(3) Mr. Zhu Qi received his remunerations from CMB Wing Lung Bank, a subsidiary of the Company. Mr. Zhao Ju received his remunerations from CMB International Capital Corporation Limited, a subsidiary of the Company.

(4) The remunerations received from the Company by the Directors, Supervisors and senior management who were appointed or resigned during the reporting period are calculated on the length of their service in the Company during the reporting period.

(5) The aggregate pre-tax remunerations of the full-time Executive Directors, Chairman of the Board of Supervisors and senior management of the Company are still being verified, and the information about the pre-tax remunerations of other staff will be disclosed separately upon confirmation of payment.

(6) The total remunerations before tax of Mr. Wang Jianzhong and Mr. Shi Shunhua included the remunerations during the period of being members of the CPC Committee of the Company from January to April 2019; the total remuneration before tax of Mr. Wang Yungui included the remuneration during the period of being a member of the CPC Committee of the Company from April to June 2019.

(7) There was a change in the shareholdings of the Directors, Supervisors and senior management listed in the above table during the reporting period, which was due to an increase in their respective shareholdings.

(8) None of the Directors, Supervisors and senior management listed in the above table has been punished by the securities regulator(s) over the past three years.

(9) None of the Directors, Supervisors and senior management listed in the above table holds any share options of the Company or has been granted any of its restricted shares.

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.

In June 2019, 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 his qualification for serving as a director is subject to the approval of the CBIRC; Mr. Liu Jianjun and Mr. Wang Liang were newly elected as Executive Directors of the Company, and their qualifications for serving as directors were approved by the CBIRC in August 2019; 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 an Independent Non-Executive Director of the Company due to the expiration of his term of office.

In June 2019, Ms. Sun Yueying ceased to be a 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 Chairman 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.

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

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

In June 2019, according to the resolutions passed at the 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 an 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 passed at 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 commitments, 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 passed at 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 the Executive Vice President of the Company. In June 2019, the qualification of Mr. Wang Yungui for serving as an Executive Vice President was approved by the CBIRC.

In April 2019, according to the relevant resolutions passed at 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 the Chief Financial Officer of the Company. Due to changes in the assignment of responsibilities in the Bank, Mr. Wang Liang ceased to concurrently serve as the Secretary of the Board of Directors of the Company.

In June 2019, according to the relevant resolutions passed at 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 the 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 in Information of Directors and Supervisors

1. Mr. Fu Gangfeng serves as the director and general manager of China COSCO Shipping Corporation Limited and ceased to serve as the director and general manager of China Merchants Group Ltd. and the Chairman of China Merchants Port Group Co., Ltd..
2. Mr. Zhou Song ceased to serve as the Chairman of China Merchants Capital Investments Co., Ltd..
3. Mr. Hong Xiaoyuan serves as the Chairman of China Merchants Capital Investments Co., Ltd. and the director of CNIC Corporation Limited and ceased to concurrently serve as the Chairman of CMB Qianhai Financial Asset Exchange Co., Ltd..
4. Mr. Zhang Jian concurrently serves as a director of China Great Bay Area Fund Management Co., Limited, a director of China Merchants Capital Holdings (International) Limited, a director of China Merchants United Development Company Limited, the Vice Chairman of China Merchants Capital Management Co. Ltd. and the Vice Chairman of China Merchants Capital Holdings Co. Ltd., and ceased to concurrently serve as the director of CMB Qianhai Financial Asset Exchange Co., Ltd..
5. Mr. Wang Daxiong ceased to concurrently serve as the Chairman of COSCO SHIPPING Captive Insurance Co., Ltd..
6. Mr. Wong See Hong ceased to concurrently serve as an independent director of Tahoe Life Insurance Company Limited.
7. Mr. Li Menggang concurrently serves as the director of the Human Capital Research Institute of the China Human Resource Development Association and ceased to serve as the special economic analyst of Xinhua News Agency.
8. Mr. Liu Yuan ceased to serve as a member of the Council of Shenzhen Finance Institute of The Chinese University of Hong Kong (Shenzhen).
9. Mr. Peng Bihong serves as the chief accountant of China Communications Construction Group (Limited) and the Chairman of CCCG Real Estate Group Limited and ceased to concurrently serve as a standing committee member of the party committee and Chief Financial Officer of China Communications Construction Company Limited and the Chairman of CCCC Finance Company Limited.
10. Mr. Wu Heng serves as the general manager of the Finance Affairs Department of SAIC Motor Corporation Limited.

6.4 Current Positions Held by Directors and Supervisors in the Shareholders' Companies

Name	Name of Company	Major Title	Term of Office
Li Jianhong	China Merchants Group Ltd.	Chairman	From July 2014 up to now
Fu Gangfeng	China COSCO Shipping Corporation Limited	Director and General Manager	From September 2019 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 Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From September 2011 up to now From June 2018 up to now
Zhang Jian	China Merchants Group Ltd.	Chief Digital Officer Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform	From January 2019 up to now 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	Dedicated risk disposal team of CBIRC despatched to Anbang Group	Deputy Head	From February 2020 up to now
Peng Bihong	China Communications Construction Group Co., Ltd.	Chief Accountant	From September 2019 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	General Manager of Finance Affairs Department	From August 2019 up to now

6.5 Biography and Positions of Directors, Supervisors and Senior Management

Directors

Mr. Li Jianhong is the Chairman and Non-Executive Director of the Company. Mr. Li obtained a master's degree in Business Administration from East London University, England and a master's degree in Economy and Management from Jilin University and is a senior economist. He is the Chairman of China Merchants Group Ltd. and concurrently serves as the Chairman of China Merchants RenHe Life Insurance Co., Ltd.. He was the Vice President of China Ocean Shipping (Group) Company, and the Director and President of China Merchants Group Ltd.. He also concurrently served as the Chairman of the Board of Directors of China Merchants Port Holdings Company Limited (a company listed on Hong Kong Stock Exchange), the Chairman of China International Marine Containers (Group) Limited (a company listed on Hong Kong Stock Exchange and Shenzhen Stock Exchange), the Chairman of China Merchants Capital Investments Co., Ltd., the Chairman of China Merchants Energy Shipping Company Limited (a company listed on Shanghai Stock Exchange) and the Chairman of China Merchants Huajian Highway Investment Company Limited.

Mr. Fu Gangfeng is the Vice Chairman and Non-Executive Director of the Company. Mr. Fu obtained a bachelor's degree in Finance and a master's degree in Management Engineering from Xi'an Highway College and is a senior accountant. He is the Director and General Manager of China COSCO Shipping Corporation Limited. He concurrently serves as the Executive Director and Chairman of the Board of Directors of China Merchants Port Holdings Company Limited (a company listed on Hong Kong Stock Exchange), and the Chairman of the Board of Supervisors of China Merchants RenHe Life Insurance Co., Ltd.. He was the Deputy Director of the Shekou ZhongHua Certified Public Accountants, the Director of the Chief Accountant Office and Deputy Chief Accountant of China Merchants Shekou Industrial Zone Co., Ltd., the Chief Financial Officer of China Merchants Shekou Holdings Co., Ltd., the Chief Financial Officer of China Merchants Shekou Industrial Zone Co., Ltd., the General Manager of the Finance Division of China Merchants Group Ltd., the Chief Financial Officer and Chief Accountant of China Merchants Group Ltd., the Director and General Manager of China Merchants Group Ltd., and the Chairman of China Merchants Port Group Co., Ltd. (a company listed on Shenzhen Stock Exchange).

Mr. Tian Huiyu is an Executive Director, President and Chief Executive Officer of the Company. Mr. Tian obtained a bachelor's degree in Infrastructure Finance and Credit from Shanghai University of Finance and Economics and a master's degree in Public Administration from Columbia University. He is a senior economist. He is concurrently the Chairman of CMBIC, the Chairman of CMB International Capital Corporation Limited, the Vice Chairman of Merchants Union Consumer Finance Company Limited, the Chairman of Board of Supervisors of National Association of Financial Market Institutional Investors. He was the Vice President of Trust Investment Branch of China Cinda Asset Management Co., Ltd. from July 1998 to July 2003, and the Vice President of Bank of Shanghai from July 2003 to December 2006. He consecutively served as the Deputy General Manager of Shanghai Branch, the head of Shenzhen Branch, and the General Manager of Shenzhen Branch of China Construction Bank ("CCB", a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) from December 2006 to March 2011. He acted as the Business Executive of retail banking at the Head Office and the Head and General Manager of Beijing Branch of CCB from March 2011 to May 2013. He joined the Company in May 2013 and has served as the President of the Company since September 2013.

Mr. Zhou Song is a Non-Executive Director of the Company. Mr. Zhou obtained a master's degree of World Economics in Wuhan University. Mr. Zhou is the Chief Accountant of China Merchants Group Ltd., the Chairman of Shenzhen China Merchants Ping An Asset Management Co., Ltd. (深圳市招商平安資產管理有限責任公司), the Chairman of China Merchants Finance Co., Ltd. (招商局集團財務有限公司) and the Chairman of the Board of Supervisors of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (a company listed on the Shenzhen Stock Exchange). He was the Deputy General Manager of the Planning and Finance Department of the Head Office of China Merchants Bank, the Vice General Manager of Wuhan Branch, the Deputy General Manager (in charge of work) and General Manager of the Planning and Finance Department of the Head Office, the Employee Supervisor of China Merchants Bank, the Business Director and General Manager of the Assets and Liabilities Management Department of the Head Office, the President of Interbank Financial Department, the General Manager of the Assets Management Department of the Head Office and the Business Director of the Head Office, the President of Investment Banking and Financial Market Department, the General Manager of the Assets Management Department of the Head Office and the Business Director of the Head Office.

Mr. Hong Xiaoyuan is a Non-Executive Director of the Company. Mr. Hong obtained a master's degree in Economics from Peking University and a master's degree in Science from Australian National University. He is a senior economist. He serves as the Director of China Merchants Holdings (Hong Kong) Company Limited and the Assistant General Manager of China Merchants Group Ltd., the Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform and the Chairman of China Merchants Finance Holdings Company Limited. He concurrently serves as the Chairman of China Merchants Finance Investment Holdings Co., Ltd., China Merchants Capital Investments Co., Ltd., China Merchants United Development Company Limited and China Merchants Innovative Investment Management Co., Ltd., and the Director of China Merchants RenHe Life Insurance Co., Ltd. and CNIC Corporation Limited. He served as the Director of China Merchants Securities Co., Ltd. (a company then listed on the Shanghai Stock Exchange), the Chairman of the Board of Directors of China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange), the Chief Executive Officer of China Merchants Finance Holdings Company Limited and the Chairman of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd..

Mr. Zhang Jian is a Non-Executive Director of the Company. Mr. Zhang obtained a bachelor's degree in Economics and Management from the Department of Economics of Nanjing University and a master's degree in Econometrics from the Business School of Nanjing University, and is a senior economist. He is the Chief Digital Officer of China Merchants Group Ltd., General Manager of Finance Department, the Director of the Digital Centre, the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform and a Director of China Merchants Finance Holdings Company Limited. He concurrently serves as the Chairman of China Merchants Financial Technology Co., Ltd. (招商局金融科技有限公司), the Chairman of the Board of Directors of China Merchants China Direct Investments Limited, the Vice Chairman of China Merchants Capital Investments Co., Ltd., the Vice Chairman of China Merchants Capital Management Co. Ltd., the Vice Chairman of China Merchants Capital Holdings Co. Ltd., a Director of China Merchants Innovative Investment Management Co., Ltd., a Director of China Great Bay Area Fund Management Co., Limited, a Director of China Merchants Capital Holdings (International) Limited, a Director of China Merchants Innovative Investment (International) Co., Ltd. (招商局創新投資（國際）有限公司), a Director of China Merchants Innovation Investment General Partnership (International) Co., Ltd. (招商局創新投資普通合夥（國際）有限公司), a Director of China Merchants United Development Company Limited, a Director of Shi Jin Shi Credit Service Co., Ltd. (試金石信用服務有限公司) and a Director of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司). He had held various positions including General Manager of the Suzhou Branch of China Merchants Bank, Deputy General Manager of the Corporate Banking Department at the Head Office of China Merchants Bank (in charge), Business Director and General Manager of the Corporate Banking Department at the Head Office of China Merchants Bank, Business Director and General Manager of the Credit Risk Management Department at the Head Office of China Merchants Bank and Business Director and General Manager of the Comprehensive Risk Management Office at the Head Office of China Merchants Bank, a Director of China Merchants RenHe Life Insurance Company Limited, a Director of China Merchants Insurance Holdings Co., Ltd. (招商局保險控股有限公司), a Director of China Merchants Ping An Asset Management Co., Ltd., Deputy General Manager of China Merchants Finance Holdings Co., Ltd. and a Director of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd..

Ms. Su Min is a Non-Executive Director of the Company. Ms. Su obtained a bachelor's degree in Finance from Shanghai University of Finance and Economics and a master's degree in Business Administration from China University of Technology, and is a senior accountant, certified public accountant and certified public valuer. She is the Deputy Director (Executive) of the Executive Committee of the China Merchants Financial Group/Platform. She concurrently serves as a Director of Bosera Asset Management Co., Limited, a Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). She successively served as the Deputy Director of Property Office of the State-owned Assets Supervision and Administration Commission of Anhui Province, a Director of Huishang Bank, the Deputy General Manager and Chief Accountant of Anhui Energy Group Co., Ltd., the Chief Accountant and a member of the Communist Party of China of China Shipping (Group) Company, the Chairman of China Shipping Finance Co., Ltd., the Chairman of COSCO Financial Leasing Co., Ltd. (中海融資租賃公司), a Director of Bank of Kunlun, and a Director of China Shipping Development Co., Ltd.(a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and China Shipping Container Lines Company Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). She served as a Director of China Merchants Innovation Investment Management Co., Ltd. (招商局創新投資管理有限責任公司), a Supervisor of China Merchants Capital Investments Co., Ltd. and the General Manager of China Merchants Finance Holdings Co., Limited.

Mr. Wang Daxiong is a Non-Executive Director of the Company. Mr. Wang obtained a bachelor's degree in Shipping Finance and Accounting from the Department of Marine Transportation Management of Shanghai Maritime University and a master's degree in Business Administration for Senior Management from Shanghai University of Finance and Economics, and is a senior accountant. He is the Chairman of COSCO SHIPPING Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and the Chairman of COSCO Shipping Financial Holdings Co., Ltd.. He concurrently serves as a Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He served as a Director of China Merchants Bank from March 1998 to March 2014. He also served as the Vice President and Chief Accountant of China Shipping (Group) Company, Deputy General Manager of China Shipping (Group) Company and the Chairman of China Shipping (HK) Holdings Limited.

Mr. Luo Sheng is a Non-Executive Director of the Company. Mr. Luo obtained a doctoral degree in corporate governance from the Business School of Nankai University. Mr. Luo is currently the deputy head of the dedicated risk disposal team despatched to Anbang Group and a director of Gemdale Corporation (a company listed on Shanghai Stock Exchange). Mr. Luo was the principal staff member of the Regulation Division of the Policy and Regulation Department, the principal staff member of the Market Analysis Division of the Development and Reform Department, the deputy director and director of the Corporate Governance Division of the Development and Reform Department, and the deputy director of the Regulation Department of the China Insurance Regulatory Commission. He also served as an executive director, the executive vice president, the secretary of the board of directors, and general manager of Shanghai Branch of China Insurance Information Technology Management Co., Ltd., and the deputy director of Development and Reform Department of China Insurance Regulatory Commission.

Mr. Liu Jianjun is an Executive Director, Executive Vice President and the Secretary of the Board of Directors of the Company. Mr. Liu obtained a master's degree in National Economics from Dongbei University of Finance and Economics, and is a senior economist. He has successively served as the Deputy General Manager of Jinan Branch of the Company, the General Manager of the Retail Banking Department under the Head Office, an Executive Vice President of the Retail Banking Department under the Head Office and the Business Executive of the Head Office since September 2000. He has been an Executive Vice President of the Company since December 2013, the Secretary of the Board of Directors of the Company since July 2019 and an Executive Director of the Company since August 2019.

Mr. Wang Liang is an Executive Director, Executive Vice President and Chief Financial Officer of the Company. Mr. Wang obtained a master's degree in Money and Banking from Renmin University of China, and is a senior economist. He successively served as the Assistant General Manager, the Deputy General Manager and the General Manager of Beijing Branch of the Company. He served as the Executive Assistant President of the Company and concurrently, the General Manager of Beijing Branch since June 2012. He ceased to serve as the General Manager of Beijing Branch in November 2013, and has been serving as an Executive Vice President of the Company since January 2015. He concurrently served as the secretary of the Board of Directors of the Company from November 2016 to April 2019, and has concurrently been serving as the Chief Financial Officer of Company since April 2019. He concurrently serves as Vice President of Payment & Clearing Association of China and a member of the High-level Steering and Coordination Committee for Data Governance of China Banking and Insurance Regulatory Commission.

Mr. Leung Kam Chung, Antony is an Independent Non-Executive Director of the Company. Mr. Leung obtained a bachelor's degree in Social Sciences from the University of Hong Kong. He also attended Harvard Business School's Program for Management Development and Advanced Management Program. He is the Chairman and Chief Executive Officer of Nan Fung Group, the Chairman and co-founder of New Frontier, and the Chairman of two charitable organisations, Heifer – Hong Kong and "Food Angel". Mr. Leung served as a member of the Executive Committee, the Senior Managing Director and the Chairman of Greater China Region of Blackstone. He also acted as the Chairman of Asia for JP Morgan Chase and worked for Citi in various positions, including the country corporate officer for Hong Kong SAR and China, the Regional Treasurer for North Asia, head of Investment Banking for North Asia, South West Asia and head of Private Banking for Asia. Past board membership of Mr. Leung included an Independent Director of Industrial and Commercial Bank of China Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), China Mobile Hong Kong Company Limited and American International Assurance, the Vice Chairman of China National Bluestar Group, a member of the international advisory board of China Development Bank and European Advisory Group. In terms of government services, Mr. Leung had served as financial secretary, non-official member of the Executive Council of Hong Kong SAR, Chairman of the Education Commission, Chairman of the University Grants Committee, member of the Exchange Fund Advisory Committee, member of the Preparatory Committee for the Hong Kong Special Administrative Region and Election Committee and Hong Kong Affairs Advisors to the Chinese Government, a member of the Board of Hong Kong Airport Authority and a Director of the Hong Kong Futures Exchange.

Mr. Zhao Jun is an Independent Non-Executive Director of the Company. Mr. Zhao obtained a bachelor's degree from the Department of Shipbuilding Engineering of Harbin Engineering University, a master's degree from the Department of Ocean Engineering of Shanghai Jiao Tong University, a doctorate degree in Civil Engineering from the University of Houston, a master's degree in Financial Management from the School of Management of Yale University. Mr. Zhao is currently the Chairman of Beijing Fellow Partners Investment Management Ltd.. He concurrently serves as the Independent Non-Executive Director of Bright Scholar Education Holdings Limited (a company listed on New York Stock Exchange) and the Independent Non-Executive Director of Sichuan Xunyou Network Technology Co., Ltd. (四川迅遊網絡科技股份有限公司), a company listed on the Shenzhen Stock Exchange. He was a Managing Partner of DT Capital Partners, the Managing Director and the Chief Representative in China of ChinaVest.

Mr. Wong See Hong is an Independent Non-Executive Director of the Company. Mr. Wong obtained a bachelor's degree in Business Administration from the National University of Singapore, a master's degree in Investment Management from Hong Kong University of Science and Technology, and a doctoral degree in Transformational Leadership (DTL) from Bethel Bible Seminary. He is an Independent Director of The Frasers Hospitality Assets Management Pte., Ltd. (新加坡輝盛國際資產管理有限公司) and EC World Asset Management Private Limited. He previously served as the Deputy Chief Executive of BOCHK, head, Managing Director and President for the Southeast Asia region, and the head of the Financial Market Department in Asia (亞洲區金融市場部主管) of ABN AMRO Bank, a Director of Bank of China Group Insurance Company Limited, the Chairman of the Board of BOC Group Trustee Company Limited, the Chairman of BOCI-Prudential MPF (中銀保誠強積金), the Chairman of BOCHK Asset Management Limited, a member of the Board of Directors of the Civil Servants Institute of Prime Minister's Office Singapore (新加坡總理辦公室公務員學院), a member of the Client Consulting Commission (客戶諮詢委員會) of Thomson Reuters and a member of the Financial Management Commission of the Hong Kong Administration Society (香港管理學會財務管理委員會).

Mr. Li Menggang is an Independent Non-Executive Director of the Company. Mr. Li obtained a Ph.D. in Economics and a post-doctoral degree in both Transportation and Communication Engineering and Theoretical Economics from Beijing Jiaotong University. He has been serving as a professor and doctoral supervisor at Beijing Jiaotong University, the Joint Dean of the National Academy of Economic Security (NAES) of Beijing Jiaotong University, the Director of Beijing Laboratory of National Economic Security Pre-Warning Project, the Chief Expert of Major Bidding Projects of the National Social Science Fund, the Project Review Expert of the National Social Science Fund and the Chairman of the Professional Committee of the Logistics Informatisation and Industrial Security System of the Institute of Electrical and Electronics Engineers (IEEE). He concurrently serves as the Vice President and the Deputy Director of the Expert Committee of China Human Resource Development Association, the Director of the Human Capital Institute, the Deputy Director of the Independent Board Committee of China Association for Public Companies, an Independent Director of Daqin Railway Co., Ltd. (a company listed on Shanghai Stock Exchange) and Hunan Copote Science & Technology Co., Ltd. (a company listed on Shanghai Stock Exchange). He served as an Independent Director of Sichuan Golden Summit (Group) Joint-stock Co., Ltd. (a company listed on Shanghai Stock Exchange) and an Independent Non-Executive Director of Yuxing InfoTech Investment Holdings Limited (a company listed on Hong Kong Stock Exchange).

Mr. Liu Qiao is an Independent Non-Executive Director of the Company. Mr. Liu obtained a bachelor of science degree in Economics and Mathematics from Renmin University of China, a master's degree in Economics from the Institute of Finance of People's Bank of China and a Ph.D. in Economics from University of California, Los Angeles in the United States and is a distinguished professor (特聘教授) of Changjiang Scholars Program. He has been serving as the Dean at the Guanghua School of Management of Peking University, professor of Finance and Economics and doctoral supervisor. He is also a member of Think Tank Committee of All-China Federation of Industry and Commerce (全國工商聯智庫委員會), the Economic Research Center of Chinese Kuomintang Revolutionary Committee and the expert panel of the Shenzhen Stock Exchange; an advisor of the post-doctoral stations of the CSRC, the Shenzhen Stock Exchange, the China Financial Futures Exchange and China Minsheng Banking Corp., Ltd. etc., the Vice Chairman of the China Enterprise Reform and Development Society (中國企業改革與發展研究會), an Independent Non-Executive Director of CSC Financial Co., Ltd. (a company listed on Hong Kong Stock Exchange), an Independent Non-Executive Director of Zensun Enterprises Limited (formerly known as ZH International Holdings Limited, a company listed on Hong Kong Stock Exchange) and an Independent Director of Beijing Capital Co., Ltd. (a company listed on Shanghai Stock Exchange). Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong, a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company and an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong.

Mr. Tian Hongqi is an Independent Non-Executive Director of the Company. Mr. Tian obtained a bachelor's degree in Finance and Accounting from the Faculty of Water Transportation Management of Shanghai Maritime University, and is a senior accountant. He previously served as the Chief Financial Officer and Chief Information Officer of COSCO SHIPPING Bulk Co., Ltd., the General Manager of the Finance Department of COSCO Container Lines Co., Ltd., the Director and the General Manager of the Financial Department of COSCO Japan, the Chief Financial Officer of COSCO Holdings (Singapore) Pte. Ltd. (中遠控股（新加坡）有限公司), the General Manager of the Finance Department of the COSCO Container Transportation Operation Headquarters (中遠集裝箱運輸經營總部), and the Deputy Director of the Finance Department of COSCO.

Supervisors

Mr. Liu Yuan is the Chairman of the Board of Supervisors of the Company and an Employee Supervisor. Mr. Liu obtained a bachelor's degree in Global Economy from Renmin University of China, and is a senior economist. He served as the deputy section officer and section officer of the Management Office of foreign affairs bureau (外事局管理處) of the People's Bank of China from August 1984 to October 1991. He was the Secretary (deputy division head level) of the Management Office and Deputy Chief of the Monetary Office of Foreign Exchange Affairs Division (外匯業務司金管處) of State Administration of Foreign Exchange from October 1991 to February 1994. He consecutively served as the Secretary (division head level) of the General Office (辦公廳正處級秘書), researcher of the regulatory office I of the banking division (銀行司監管一處調研員), head of the regulatory office III of the banking regulatory division II (銀行監管二司監管三處處長) and head of the regulatory office VII of the banking regulatory division II (銀行監管二司監管七處處長) of the People's Bank of China from February 1994 to July 2003. He served as the deputy head of the Banking Supervision Department II (銀行監管二部副主任) of the CBRC, director of CBRC Shanxi Bureau, director of CBRC Shenzhen Bureau, head of the Banking-related Case Audit Bureau (銀行業案件稽查局局長) of the CBRC and head of the Banking-related Consumer Protection Bureau (銀行業消費者權益保護局) of the CBRC from July 2003 to July 2014. He has been the Chairman of the Board of Supervisors of the Company since August 2014. He is concurrently a visiting professor of Renmin University of China, the chairman of the professional committee under the supervisory committee of China Association for Public Companies and a member of Shenzhen Finance Development Decision-making Consultation Committee (深圳市金融發展決策諮詢委員會).

Mr. Peng Bihong is a Shareholder Supervisor of the Company. Mr. Peng graduated from Hunan College of Finance and Economics (湖南財經學院) majoring in Finance and obtained a master's degree in Economics from Wuhan University. Mr. Peng is a certified public accountant. He currently serves as a standing committee member of the Party Committee and chief accountant of China Communications Construction Group (Limited), the chairman of CCCG Real Estate Group Limited and vice chairman of Jiang Tai Insurance Brokers Co., Ltd. He has worked for China Poly Group Corporation Limited ("Poly Group") for nearly 20 years, serving successively as the director of the finance department of China Poly Group Corporation, the general manager of Poly Finance Company Limited, the chief financial officer of Poly Real Estate Group Co., Ltd. and a standing committee member of the Party Committee and the chief accountant of Poly Group, as well as the chairman of Poly Finance Company Limited and Poly Investment Holdings Co., Ltd. respectively. He served as the chief financial officer of China Communications Construction Company Limited from September 2018 to September 2019.

Mr. Wen Jianguo is a Shareholder Supervisor, a university graduate and an accountant. Mr. Wen is a Director, a standing committee member of the Party Committee and Chief Accountant of Hebei Port Group Co., Ltd. (河北港口集團有限公司) and concurrently the Chairman of Hebei Port Group Finance Company Limited and a Director of Caida Securities Co., Ltd. and Bank of Hebei Co., Ltd.. He once served as a deputy head and head of Finance Department of Qinhuangdao Port Bureau (秦皇島港務局) as well as head of Finance Department of Qinhuangdao Port Group Co., Ltd.. He served as a Director and Chief Accountant of Qinhuangdao Port Group Co., Ltd. from July 2007 to July 2009. He served as a Shareholder Supervisor of the Company from June 2010 to May 2013.

Mr. Wu Heng is a Shareholder Supervisor of the Company and a postgraduate from the Department of Accounting of Shanghai University of Finance and Economics. Mr. Wu obtained a master's degree in Management and is a senior accountant. He is the General Manager of Finance Affairs Department of SAIC Motor Corporation Limited, the General Manager of SAIC Motor Financial Holding Management Co., Ltd. and a Non-executive Director of Bank of Chongqing Co., Ltd. (a company listed on Hong Kong Stock Exchange). He consecutively served as a Deputy Manager and Manager of Planning and Finance Department as well as a Manager of Fixed Income Department of Shanghai Automotive Group Finance Company, Ltd. from March 2000 to March 2005. He consecutively served as a Division Head, Assistant to Executive Controller and the Manager of Accounting Division of Finance Department of SAIC Motor Corporation Limited from March 2005 to April 2009, the Chief Financial Officer of Huayu Automotive Systems Co., Ltd. (a company listed on Shanghai Stock Exchange) from April 2009 to May 2015, and concurrently serving as the Director and General Manager of Huayu Automotive Systems (Shanghai) Co., Ltd. (華域汽車系統（上海）有限公司) during the period from May 2014 to May 2015, and the Deputy General Manager of the Finance Affairs Department of SAIC Motor Corporation Limited from May 2015 to August 2019.

Mr. Ding Huiping is an External Supervisor of the Company. Mr. Ding obtained a doctorate degree in Enterprise Economics from Universitet I Linkoeping in Sweden. He is currently a professor and a tutor of doctorate candidates in the School of Economics and Management of Beijing Jiaotong University, the head of PRC Enterprise Competitiveness Research Center, and Honorary Professor in the Business School of Duquesne University. He is concurrently an Independent Director of Huadian Power International Corporation Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), Metro Land Corporation Ltd. (a company listed on Shanghai Stock Exchange), Shandong International Trust Co., Ltd. (a company listed on Hong Kong Stock Exchange) and China Haisum Engineering Co., Ltd. (a company listed on Shenzhen Stock Exchange). He consecutively served as an Independent Director of Shandong Luneng Taishan Cable Company Limited (a company listed on Shenzhen Stock Exchange), Road & Bridge International Co., Ltd. (a company listed on Shanghai Stock Exchange), China International Marine Containers (Group) Ltd. (a company listed on Hong Kong Stock Exchange and Shenzhen Stock Exchange) and China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He served as an Independent Director of the Company from May 2003 to May 2006.

Mr. Han Zirong is an External Supervisor of the Company. Mr. Han obtained a bachelor's degree in Business Economics from Jilin Finance and Trade College, and is an economist and certified public accountant. He is currently a partner of Shu Lun Pan Hong Kong CPA Limited, and he is concurrently an External Supervisor of Bank of Chengdu Corporation Limited (a company listed on Shanghai Stock Exchange) and an Independent Director of Bank of Hainan. He served as a credit administrator of Industrial and Commercial Bank of China, Changchun Branch from August 1985 to October 1992. He served as an Assistant Director in the Audit Firm under Audit Bureau of Shenzhen Municipality from October 1992 to September 1997. He served as a managing partner of Shenzhen Finance Accounting Firm (深圳市融信會計師事務所) from October 1997 to October 2008. He served as a senior partner of Daxin Certified Public Accountants from October 2008 to October 2012.

Mr. Xu Zhengjun is an External Supervisor of the Company. Mr. Xu obtained a master's degree in the Maritime Transportation Management from Shanghai Maritime University and is a senior political engineer. He is currently an Independent Director of China Merchants RenHe Life Insurance Co., Ltd.. He previously served as the Section Chief and the Department Head of Shanghai Ocean Shipping Co., Ltd., the General Manager of the crew company and land property company of COSCO Container Lines Co., Ltd., the Assistant to General Manager of COSCO Container Lines Co., Ltd., the General Manager of Shanghai Ocean Shipping Co., Ltd., the Secretary of the Disciplinary Committee of COSCO Container Lines Co., Ltd., the General Manager of COSCO (HK) Industry & Trade Holdings Ltd., the Vice Chairman of Shenzhen Guangju Energy Co., Ltd. (a company listed on Shenzhen Stock Exchange), the Vice President and General Counsel of COSCO (Hong Kong) Group Limited and the Director of True Smart International Limited, the General Manager and Executive Director of COSCO International Holdings Limited, the Chairman of the Corporate Governance Committee of COSCO International and the Independent Director of Sinotrans Shipping Limited.

Mr. Wang Wanqing is an Employee Supervisor of the Company. Mr. Wang obtained a bachelor's degree in Chinese Language & Literature from Anhui University. Mr. Wang currently serves as the Business Director of the Head Office and the General Manager of the Audit Department of the Company. He is concurrently the executive member of the China Institute of Internal Audit. Mr. Wang started his career in Anhui University in July 1986. He worked in the General Office in Anhui Province from November 1991 to February 2001. He consecutively served as the Head, Assistant President and Vice President of the Hefei Branch of the Company from February 2001 to April 2007. He served as the General Manager of the Human Resources Department at the Head Office of the Company and the Deputy Director of the Labour Union from April 2007 to August 2012. He served as the Business Director of the Head Office, the General Manager of the Human Resources Department and the Deputy Director of the Labour Union of the Company from September 2012 to March 2014. He has been an Employee Supervisor of the Company since July 2018.

Mr. Liu Xiaoming, is an Employee Supervisor of the Company. Mr. Liu obtained a Ph.D. in Applied Economics from Xi'an Jiaotong University, and is a senior economist. He currently serves as the Director of the Labor Union of the Head Office of the Company. He started his career in Shaanxi University of Finance and Economics in July 1987. He served as the deputy head and head of the business office II of Shaanxi Office of China Rural Development Trust and Investment Corporation (中國農村發展信托投資公司) from March 1994 to February 1997. He joined the Bank in February 1997, and consecutively served as Manager of the Credit Department and General Manager of the Risk Control Department of Xi'an Branch, Assistant General Manager and Deputy General Manager of Urumqi Branch, Deputy General Manager of the Risk Management Department, Deputy General Manager of the Credit Management Department, General Manager of the Credit Approval Department and General Manager of the Credit Risk Management Department of the Head Office, and the General Manager of Zhengzhou Branch. He served as Executive Vice President of China Merchants Bank University, Director of the Training Center of the Head Office from December 2016 to June 2019, during which he concurrently served as General Manager of the Strategic Development Department of the Head Office.

Senior management

Mr. Tian Huiyu, please refer to Mr. Tian Huiyu's biography under the heading of "Directors" above.

Mr. Liu Yuan, please refer to Mr. Liu Yuan's biography under the heading of "Supervisors" above.

Mr. Tang Zhihong is an Executive Vice President of the Company. Mr. Tang obtained a bachelor's degree in Chinese Language and Literature from Jilin University, and is a senior economist. He joined the Company in May 1995. He successively served as the Deputy General Manager of Shenyang Branch, the deputy head of the Shenzhen Administration Unit, the General Manager of Lanzhou Branch, the General Manager of Shanghai Branch and the head of the Shenzhen Administration Unit of the Company, and an Executive Assistant President of the Head Office. He has been an Executive Vice President of the Company since May 2006. He concurrently serves as a Director of the Federation of Shenzhen Commerce (深圳市深商總會).

Mr. Liu Jianjun, please refer to Mr. Liu Jianjun's biography under the heading of "Directors" above.

Mr. Xiong Liangjun is the Secretary of the Party Discipline Committee of the Company. Mr. Xiong obtained a master's degree in Money and Banking from Zhongnan University of Finance and Economics and an EMBA degree from the Cheung Kong Graduate School of Business. He is a senior economist. He successively served as the Deputy Director-General of the CBRC Shenzhen Bureau, the Director-General of the CBRC Guangxi Bureau and the CBRC Shenzhen Bureau from September 2003 to July 2014. He has been the Secretary of the Party Discipline Committee of the Company since July 2014.

Mr. Wang Liang, please refer to Mr. Wang Liang's biography under the heading of "Directors" above.

Mr. Wang Jianzhong is an Executive Vice President of the Company. He obtained a bachelor's degree in Accounting from Dongbei University of Finance and Economics and is an assistant economist. Mr. Wang joined the Company in November 1991 and successively served as the General Manager of Changsha Branch, the Deputy General Manager of the Corporate Banking Department of the Head Office, the General Manager of Foshan Branch, the General Manager of Wuhan Branch, the Business Director of General Office of Corporate Finance Group of the Head Office and the General Manager of Beijing Branch of the Company since October 2002. He has served as an Executive Vice President of the Company since April 2019. He is concurrently a Director of China UnionPay Co., Ltd. and a member of Visa Asia Pacific Senior Advisory Council.

Mr. Shi Shunhua is an Executive Vice President of the Company. He obtained an MBA degree from China Europe International Business School and is a senior economist. Mr. Shi joined the Company in November 1996 and successively served as the Assistant General Manager and the Deputy General Manager of Shanghai Branch, the General Manager of Suzhou Branch, the General Manager of Shanghai Branch and the Business Director of the General Office of Corporate Finance Group under the Head Office of the Company since May 2003. He has served as an Executive Vice President of the Company since April 2019. He is concurrently the General Manager of Shanghai Branch of the Company and the Chairman of CMBFL and also serves as a member of the 13th Session of the Shanghai People's Political Consultative Committee.

Mr. Wang Yungui is an Executive Vice President of the Company. Mr. Wang obtained a master's degree from the Party School of the Central Committee of the Communist Party of China and a MBA degree (International Courses) from Fudan University and The University of Hong Kong, and is a senior economist. He successively served as the General Manager of the Department of Education and the General Manager of the Human Resources Department of the Industrial and Commercial Bank of China from July 2008 to December 2016, and served as the Secretary of the Disciplinary Committee of China Development Bank from December 2016 to March 2019. He has served as an Executive Vice President of the Company since June 2019.

Mr. Li Delin is an Executive Assistant President of the Company. Mr. Li obtained a doctoral degree in Finance from Wuhan University, and is a senior economist. He joined the Company in October 2013 and successively served as the Director of the Head Office, the General Manager of the Strategic Customer Department, the General Manager of the Strategic Customer Department and the General Manager of the Institutional Customer Department, and the General Manager of Shanghai Branch and the General Manager of Shanghai Pilot Free Trade Zone Branch of the Company. He has served as an Executive Assistant President of the Company since April 2019 and is concurrently the Chairman of the Board of Supervisors of Shenzhen Public Companies Association.

Ms. Liu Hui is an Executive Assistant President of the Company. Ms. Liu obtained a MBA degree in Finance from Tsinghua University and The Chinese University of Hong Kong, and is a senior economist. She joined the Company in April 1995 and successively served as the Deputy General Manager of the Planning and Finance Department of the Head Office, the General Manager of the Market Risk Management Department, the General Manager of the Asset and Liability Management Department and the General Manager of the Investment Management Department, and the President of the Investment Banking and Financial Market Department and the General Manager of the Asset Management Department. She has been serving as an Executive Assistant President of the Company since April 2019. She is concurrently the General Manager of the Asset Management Department of the Head Office of the Company, the Chairman of China Merchants Fund Management Co., Ltd., the Chairman of CMB Wealth Management Company Limited and a Director of the Asian Financial Cooperation Association.

Joint company secretaries

Mr. Liu Jianjun, please refer to Mr. Liu Jianjun's biography under the heading of "Biography of Directors" above.

Ms. Ho Wing Tsz Wendy is a joint company secretary of the Company. Ms. Ho obtained a MBA degree from the Hong Kong Polytechnic University. She is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both The Hong Kong Institute of Chartered Secretaries (HKICS) and The Chartered Governance Institute (CGI) (formerly The Institute of Chartered Secretaries and Administrators (ICSA)) in the United Kingdom and is a council member of HKICS, the Vice Chairlady of the Education Committee of HKICS and is a holder of the Practitioner's Endorsement issued by HKICS. Ms. Ho is an Executive Director of Corporate Services of Tricor Services Limited, and her professional practice area covers business consulting, corporate services for private, offshore and listed companies. Ms. Ho has over 20 years of experience in the corporate secretarial and compliance service field and is currently the company secretary or joint company secretary of a few listed companies on the Hong Kong Stock Exchange.

6.6 Evaluation and Incentive System for Directors, Supervisors and Senior Management

The Company offers remuneration to Independent Directors and external Supervisors according to the "Resolution in Respect of Adjustment to Remuneration of Independent Directors" and the "Resolution in Respect of Adjustment to Remuneration of External Supervisors" considered and passed at the 2016 First Extraordinary General Meeting; offers remuneration to Executive Directors and other senior executives according to the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd."; and offers remuneration to Employee Supervisors in accordance with the policies on remunerations of employees of the Company. All of the Directors and Supervisors nominated by shareholders of the Company do not receive any remuneration from the Company.

The Board of Directors of the Company evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." and the "Assessment Standards of the H-Share Appreciation Rights Incentive Scheme for the Senior Management". According to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors" and the "Policies on Evaluation of Performance of Supervisors by the Board of Supervisors", the Board of Supervisors evaluates the annual duty performance of the Directors and Supervisors through monitoring their duty performance in the ordinary course, conducting duty performance interviews, reviewing and evaluating their annual duty performance records (including but not limited to, attendance of meetings, participation of researches, provision of recommendations and the term of office in the Company), the "Duty Performance Self-Evaluation Questionnaire" completed by each Director and Supervisor and work summaries, and then reports the same to the shareholders' general meeting and regulatory authorities. According to the "Policies on Evaluation of Duty Performance of Senior Management by the Board of Supervisors (Trial)", the Board of Supervisors evaluates the annual duty performance of senior management through monitoring their duty performance in the ordinary course and accessing to their duty performance information (including but not limited to, major speeches, major meeting minutes and the evaluation of the duty performance of senior management by the Board of Directors) and work reports, and then reports the same to the shareholders' general meeting and regulatory authorities.

6.7 Information About Employees

As of 31 December 2019, the Group had 84,683 employees[17] (including dispatched employees). The classification of our employees by profession is: 17,876 employees in corporate finance, 36,052 employees in retail finance, 4,280 employees in risk management, 14,679 employees in operation management, 3,253 employees in research and development, 900 employees in administrative and logistical support, and 7,643 employees in general management. The classification of our employees by educational background is: 18,056 employees with master's degree and above, 56,928 employees with bachelor's degree and 9,699 employees with junior college degree or below.

Staff remuneration policy

The Company's remuneration policy is in line with its operation targets, cultural and value concepts. It aims to refine and improve its incentive and restrictive mechanisms, realise its corporate goals, enhance its organisational performance and minimise its operating risk. The remuneration policy adheres to the remuneration management principles featuring "strategic orientation, performance enhancement, risk control, internal fairness and market adaptation" and reflects the remuneration concept of "fixing remuneration based on positions and workload".

Staff education and training program

The Company has formulated a tiered staff training program, with the trainees covering all its staff. The contents of training focus mainly on knowledge of its business and products, professional ethics and security, management skills and leadership. During the reporting period, the Company fully completed all its training and education programs.

17 Including employees of the Company, CMB Wing Lung Bank, CMB Financial Leasing, CMB International Capital, CMB Wealth Management, China Merchants Fund, CIGNA & CMB Life Insurance and Merchants Union Consumer. There were 82,241 employees at the end of 2018 calculated on the same statistical calibre. Among them, the statistical calibre of employees of CIGNA & CMB Life Insurance has been adjusted.

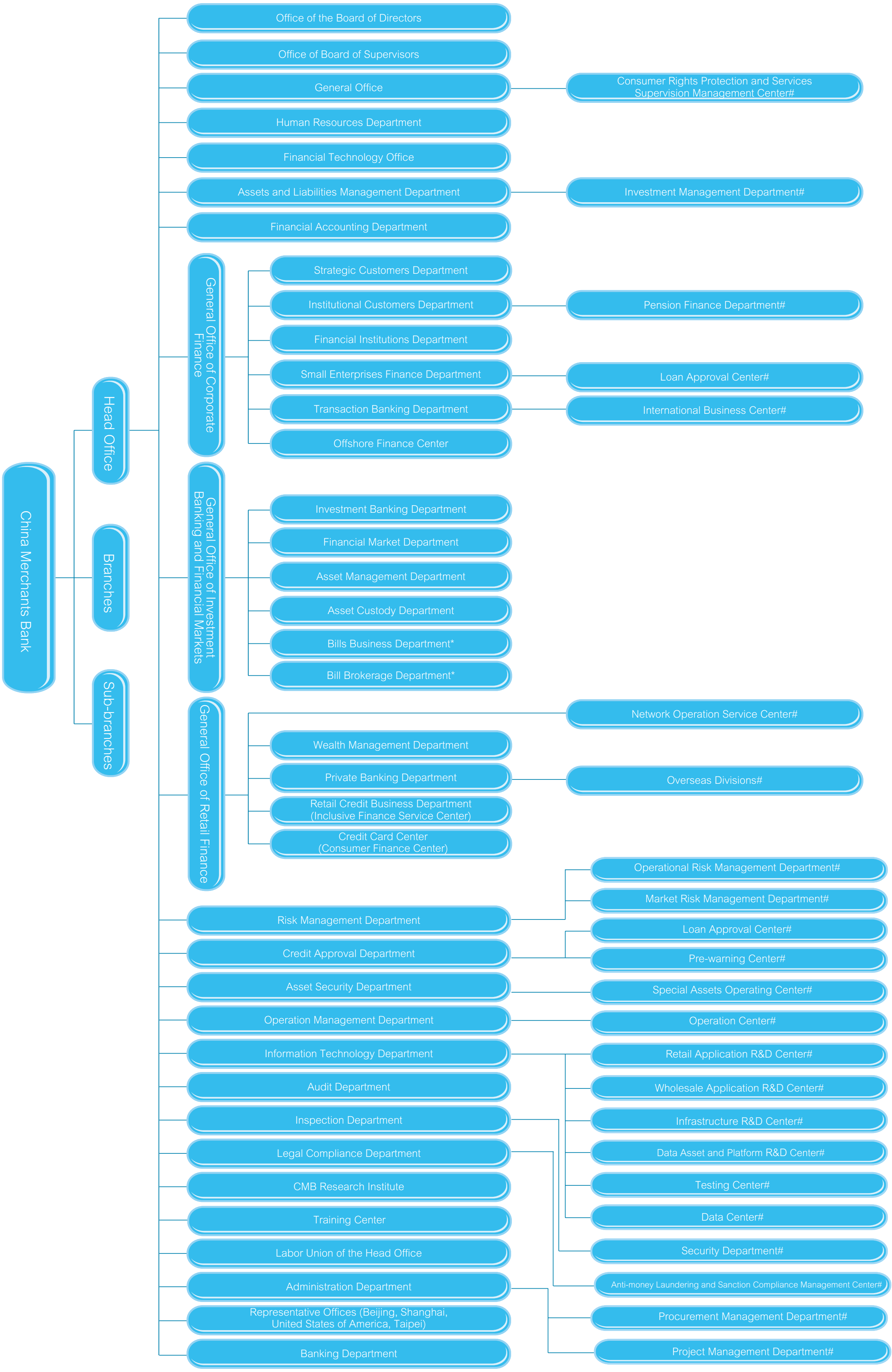
6.8 Branches and Representative Offices

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Volume of assets (in millions of RMB)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,884	2,728,674
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,360	648,768
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	92	4,985	250,032
	Shanghai Pilot Free Trade Zone Branch	6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	15	23,769
	Nanjing Branch	199 Lushan Road, Jianye District, Nanjing	210005	80	2,982	174,771
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	72	2,762	175,339
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	32	1,204	73,237
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	29	1,352	112,634
	Wuxi Branch	6-107, 6-108 1st Financial Street, Binhu District, Wuxi	214001	18	776	42,819
	Wenzhou Branch	Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	13	540	32,773
	Nantong Branch	111 Gongnong Road, Nantong	226007	14	570	26,853
Bohai Rim	Beijing Representative Office	26/F, Building 3, No.1 Yuetan South Street, Xicheng District, Beijing	100045	1	9	–
	Beijing Branch	156 Fuxingmen Nei Dajie, Xicheng District, Beijing	100031	95	5,029	336,286
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	49	1,573	49,226
	Tianjin Branch	255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300201	44	1,741	76,337
	Jinan Branch	7 Gongqingtuan Road, Jinan	250012	59	1,867	77,400
	Yantai Branch	66 Zhujiang Road, Economic & Technological Development Area, Yantai	264006	17	558	16,583
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	14	452	21,081
	Tangshan Branch	45 Beixin Road West, Lubei District, Tangshan	063000	9	233	5,431
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510623	78	2,740	160,759
	Shenzhen Branch	2016 Shennan Boulevard, Futian District, Shenzhen	518001	113	5,208	404,361
	Fuzhou Branch	316 Jiangbinzhong Boulevard Road, Fuzhou	350014	34	1,206	60,098
	Xiamen Branch	18 Lingshiguan Road, Siming District, Xiamen	361012	31	1,025	52,877
	Quanzhou Branch	180 Jiangbin North Road, Fengze Street, Quanzhou	362800	17	502	20,717
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523000	28	908	44,513
	Foshan Branch	12 Denghu Road East, Guicheng Street, Nanhai District, Foshan	528200	28	1,016	53,892
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	62	1,670	45,806
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	37	1,248	35,996
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150010	38	1,100	43,483
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	27	701	24,787
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	114	2,737	150,671
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330008	58	1,510	84,811
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	42	1,492	51,990
	Hefei Branch	169 Funan Road, Hefei	230001	43	1,372	54,343
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	47	1,322	72,852
	Taiyuan Branch	265 Nan Zhong Huan Road, Xiaodian District, Taiyuan	030012	28	877	31,202
	Haikou Branch	Building C, Haian Yihao, 1 Shimao Road North, Haikou	570125	9	343	11,212

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Volume of assets (in millions of RMB)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	55	1,673	65,658
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	29	941	32,194
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710075	66	1,909	80,294
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	49	1,656	84,739
	Urumchi Branch	2 Huanghe Road, Urumchi	830006	16	792	25,286
	Kunming Branch	1 Chongren Street Wuhua District, Kunming	650021	49	1,292	56,069
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010098	22	631	22,940
	Nanning Branch	No.136-5 Minzu Avenue, Qingxiu District, Nanning	530028	21	540	30,142
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	16	461	23,958
	Yinchuan Branch	138 Beijingzhong Road, Jinfeng District, Yinchuan	750001	17	425	13,375
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	10	270	10,201
Outside Mainland China	Hong Kong Branch	31/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong	/	1	261	125,208
	USA Representative Office	23rd Floor, 535 Madison Avenue, New York, U.S.A	10022	1	1	/
	New York Branch	23rd Floor,535 Madison Avenue, New York, U.S.A	10022	1	122	80,289
	Singapore Branch	1 Raffles Place, Tower 2, #32-61, Singapore	048616	1	45	6,438
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	/	1	2	/
	Luxembourg Branch	20 Boulevard Royal, L-2449, Luxembourg	L-2449	1	51	11,024
	London Branch	18/F, 20 Fenchurch Street, London, UK	/	1	57	12,045
	Sydney Branch	L39, GPT, 1 Farrer Place, Sydney, NSW	/	1	37	3,989
Other assignments	/	/	/	/	11	/
	CMB Wing Lung Bank	45 Des Voeux Road Central, Hong Kong	/	/	2,031	HK$341,843
	CMB Financial Leasing	22/F, 1088 Lujiazui Ring Road, Shanghai	200120	/	297	188,718
	CMB International Capital	45-46/F, Champion Tower, 3 Garden Road, Central, Hong Kong	/	/	487	HK$27,973
	CMB Wealth Management	Level 17-20, CR Capital Tower, 2700 Keyuan South Road, Nanshan District, Shenzhen	518052	/	316	5,190
	China Merchants Fund	China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen	518040	/	635	7,295
	CIGNA & CMB Life Insurance	Unit 3102, China Merchants Bank Tower, 7088 Shennan Boulevard, Shenzhen	518040	/	3,914	58,752
	Merchants Union Consumer	18/F, Building A4, Kexing Science Park, Nanshan District, Shenzhen	518000	/	957	92,697
Total	/	/	/	1,833	84,683[18]	/

18 Including employees of the Company, CMB Wing Lung Bank, CMB Financial Leasing, CMB International Capital, CMB Wealth Management, China Merchants Fund, CIGNA & CMB Life Insurance and Merchants Union Consumer. There were 82,241 employees at the end of 2018 calculated on the same statistical calibre. Among them, the statistical calibre of employees of CIGNA & CMB Life Insurance has been adjusted.

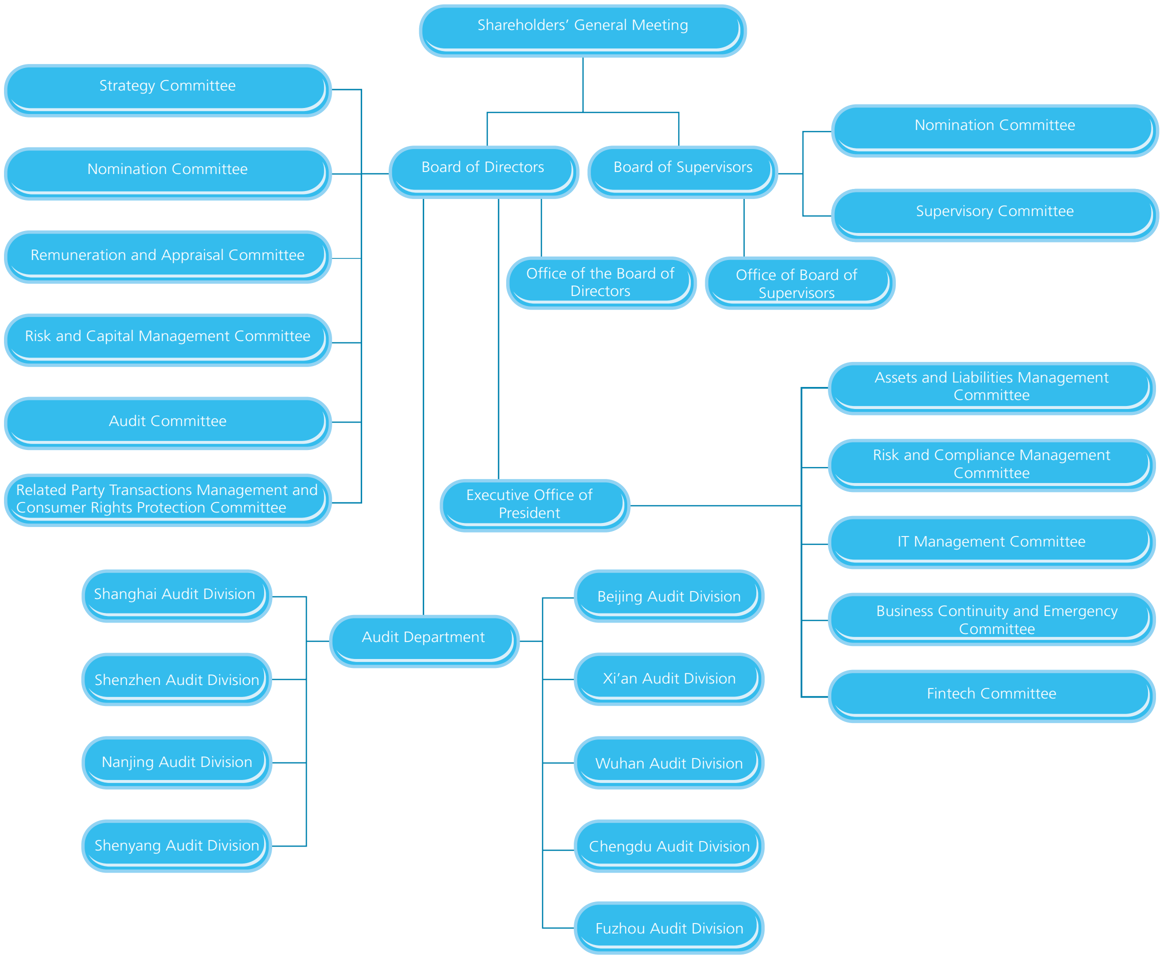
6.9 Organisational Structure of the Company:



Note：#secondary department
*independent secondary department

Corporate Governance

7.1 Corporate Governance Structure:



7.2 Overview of Corporate Governance

During the reporting period, the Company convened 1 shareholders' general meeting (14 proposals were reviewed and 5 reports were heard), 17 meetings of the Board of Directors (101 proposals were reviewed and 11 reports were heard or reviewed), 10 meetings of the Board of Supervisors (33 proposals were reviewed and 15 reports were delivered), 35 meetings of the special committees under the Board of Directors (123 proposals were reviewed and 12 reports were delivered), 6 meetings of the special committees under the Board of Supervisors (12 proposals were reviewed) and 1 meeting of Non-Executive Directors (1 report was delivered). In addition, 2 special researches were organised by the Board of Directors, and 4 by the Board of Supervisors.

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.

During the reporting period, the Company received recognitions from the capital markets and regulatory authorities in respect of corporate governance, information disclosure as well as investor relations management, and won a number of honors, mainly including the "Excellent Corporate Governance Award" and the "Most Innovative Board Secretary Award" in the selection of the "Gold Round Table Award" by Directors&Boards; the "Gold Award for Annual Reports Worldwide" selected by League of American Communications Professionals LLC, the highest grade of "A" in the annual evaluation of information disclosures by Shanghai Stock Exchange; the awards of the "Most Respectful Asian Company", the "Best CEO", the "Best CFO", the "Best Corporate Governance", the "Best Investor Relations Management Company", the "Best Company in Environmental Protection and Social Responsibilities" and the "Best Investor Relations Management Expert" for the Asian listed banks selected by Institutional Investor of U.S., and the "Most Influential Listing Companies in 2019" hosted by xueqiu.com.

7.3 Information about Shareholders' General Meetings

During the reporting period, the Company convened 1 shareholders' general meeting, namely the 2018 Annual General Meeting on 27 June 2019.

For details of the resolutions, please refer to the documents on the shareholders' general meeting published on the websites of Shanghai Stock Exchange and the Company as well as the circulars regarding the shareholders' general meeting published on the websites of Hong Kong Stock Exchange and the Company. The notification, gathering, convening and voting procedures of the meeting complied with relevant requirements of the Company Law of the People's Republic of China, the Articles of Association of the Company and the Hong Kong Listing Rules. Relevant resolutions were published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, as well as on China Securities Journal, Shanghai Securities News and Securities Times. For more information on the attendance of Directors at the shareholders' general meeting, please refer to "Attendance of Directors at Relevant Meetings" of this report.

7.4 Board of Directors

The Board of Directors is an independent policy-making body of the Company, responsible for executing resolutions passed by the shareholders' general meetings; formulating of the Company's major principles and policies, including development strategy, risk preference, internal control and internal auditing systems, remuneration regulations; deciding on the Company's operating plans, investment and financing proposals; preparing annual financial budgets, final accounts and profit appropriation plans; and appointing and evaluating members of senior management. The Company adopts a system in which the President assumes full responsibility under the leadership of the Board of Directors. The senior management team has discretionary powers in terms of operation and makes daily decisions on operation management within the scope of authorisation by the Board of Directors, and the Board of Directors would not intervene in any specific matters in the Company's daily operation and management.

The Board of Directors of the Company facilitates scientific and reasonable decision-making through the establishment of a diversified directorship structure, and continues to improve the decision-making and operational efficiency through promoting the effective operation of special committees. The Board of Directors focuses on key issues, directions and strategies, and continues to strengthen the corporate philosophy of balanced, healthy and sustainable development. The Board of Directors ensures the Company to achieve dynamic and balanced development in quality, efficiency and scale through effective management of its strategy, risks, capital, remuneration, internal control and connected transactions, etc., thus providing a solid basis for the Company to enhance its operation and management capabilities.

7.4.1 Composition of the Board of Directors

At present, the Board of Directors of the Company has seventeen members, including eight Non-Executive Directors, three Executive Directors, and six Independent Non-Executive Directors. All the eight Non-Executive Directors are from large- state-owned enterprises where they hold key positions such as the Chairman of the Board of Directors, General Manager, Deputy General Manager or Chief Financial Officer. They have extensive experience in corporate management, finance and accounting fields. The three Executive Directors have been engaged in financial management for a long time with extensive professional experience. Among the six Independent Non-Executive Directors, there are renowned experts in accounting and finance, and financial experts, university professors and investment bankers with international vision, and they all have in-depth knowledge about the development of the banking industry at home and abroad. The two Independent Non-Executive Directors from Hong Kong are proficient in international accounting standards and the requirements of Hong Kong capital market. The Board of Directors of the Company has one female Director who, together with other Directors of the Company, offers professional opinions to the Company in their respective fields. Such diversified composition of the Board of Directors of the Company has brought about a wide spectrum of vision and highly professional experience, and also has maintained strong independence which enables the Board of Directors to make independent judgments and scientific decisions effectively when studying and considering important issues.

The Company values the diversity of the members of the Board of Directors, and has formulated the relevant policies requiring that the Nomination Committee of the Company shall review the structure, number of Directors and composition (including their skills, knowledge and experience) of the Board of Directors at least once a year according to the Company's business operation, asset scale and shareholding structure, and put forward proposals in respect of any intended changes to the Board of Directors in line with the strategies of the Company.

The list of Directors of the Company is set out in Chapter VI of this report. To comply with the Hong Kong Listing Rules, the Independent Non-Executive Directors have been clearly identified in all the corporate communication documents of the Company which disclose their names.

7.4.2 Appointment, re-election and removal of Directors

In accordance with the Articles of Association of the Company, the Directors of the Company shall be elected or replaced by the shareholders at the shareholders' general meetings, and the term of office for the Directors shall be three years commencing from the date on which the approval from the PRC banking regulatory authority is obtained. A Director is eligible for re-election upon the expiry of his/her current term of office. The term of office for a Director shall not be terminated without any justification at a shareholders' general meeting before expiry of his/her term.

A Director may be removed by an ordinary resolution at a shareholders' general meeting before the expiry of his/her term of office in accordance with relevant laws and administrative regulations (however, any claim made in accordance with any contract shall not be affected).

The term of office for the Independent Non-Executive Directors of the Company shall be the same as that for other Directors of the Company. The term of office for the Independent Non-Executive Directors of the Company shall comply with the relevant laws and the requirements of the governing authority.

The procedures for appointment, re-election and removal of Directors, candidates' qualification and other requirements of the Company are set out in the Articles of Association and the implementation rules of the Nomination Committee of the Company. The Nomination Committee under the Board of Directors of the Company shall carefully consider the qualifications and experience of every candidate for a Director and recommends suitable candidates to the Board of Directors. Upon passing the candidate nomination proposal, the Board of Directors shall propose election of the related candidates at a shareholders' general meeting and submit the relevant resolution at a shareholders' general meeting for consideration and approval.

7.4.3 Responsibilities of Directors

During the reporting period, all Directors of the Company cautiously, earnestly and diligently exercised their rights under the Articles of Association of the Company and the domestic and overseas regulatory rules, devoted sufficient time and attention to the business of the Company, ensured that the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. All Directors of the Company were aware of their joint and individual responsibilities towards shareholders. During the year, the average attendance rate of Directors at meetings of the Board of Directors and the special committees under the Board of Directors was 97%.

The Independent Non-Executive Directors of the Company have presented their professional opinions on the resolutions reviewed by the Board of Directors, including offering independent written opinions on significant matters such as the profit appropriation plan, nomination and election of directors, engagement of accounting firms and related party transactions. In addition, the Independent Non-Executive Directors of the Company also gave full play to their professional advantages in the relevant special committees under the Board of Directors, and provided professional and independent opinions regarding corporate governance and operation management of the Company, thereby ensuring the scientific decision-making of the Board of Directors.

The Board of Directors of the Company reviewed its work during the reporting period, believing that it has effectively performed its duties and safeguarded the interests of the Company and its shareholders. The Company is of the opinion that all the Directors have devoted sufficient time to perform their duties.

The Company attached great importance to the continuous training of Directors, so as to ensure that they have a proper understanding of the operations and businesses of the Company, and that they are fully aware of their responsibilities under the relevant laws, regulations and systems, the regulatory requirements of the CBIRC, the CSRC, Shanghai Stock Exchange and Hong Kong Stock Exchange and the requirements of the Articles of Association of the Company. The Company has renewed the "Insurance for Liabilities of Directors, Supervisors and Senior Management" for all its Directors.

During the reporting period, the Board of Supervisors of the Company made an appraisal on the annual duty performance of the Directors, and the annual duty performance and cross-appraisal of the Independent Non-Executive Directors, and reported the appraisal results to the shareholders' general meeting.

7.4.4 Chairman of the Board of Directors and the President

The Chairman of the Board of Directors and the President of the Company has been served by different persons and their duties have been clearly defined in accordance with the requirements of the Hong Kong Listing Rules. Mr. Li Jianhong serves as the Chairman of the Board of Directors and is responsible for leading the Board of Directors, ensuring that all the Directors are updated regarding issues arising at board meetings, managing the operation of the Board of Directors, and ensuring that all major and relevant issues are discussed by the Board of Directors in a constructive and timely manner. In order to enable the Board of Directors to discuss all major and relevant matters in time, the Chairman of the Board of Directors worked together with senior management to ensure that the Directors duly receive appropriate, complete and reliable information for their reference and review. Mr. Tian Huiyu serves as the President, responsible for the business operation of the Company and implementation of its strategies and business plans.

7.4.5 Attendance of Directors at relevant meetings

The following table sets forth the records of attendance of each Director at the meetings convened by the Board of Directors and the special committees under the Board of Directors and at the shareholders' general meeting held in 2019.

Directors	Board of Directors(1)	Special committees under the Board of Directors: Strategy Committee	Nomination Committee	Remuneration and Appraisal Committee	Risk and Capital Management Committee	Audit Committee	Related Party Transactions Management and Consumer Rights Protection Committee	Shareholders' General Meeting
	Actual times of attendance/Required times of attendance(2)							
Non-Executive Directors								
Li Jianhong	17/17	5/5	5/5	/	/	/	/	1/1
Fu Gangfeng	16/17	5/5	/	/	/	/	/	0/1
Zhou Song	16/17	/	/	/	/	7/7	/	1/1
Hong Xiaoyuan	17/17	/	/	5/5	8/8	/	/	1/1
Zhang Jian	17/17	/	/	/	8/8	/	/	1/1
Su Min	17/17	/	/	/	4/4	/	5/5	1/1
Wang Daxiong	17/17	/	/	3/3	4/4	5/5	/	1/1
Luo Sheng	5/5	1/1	/	/	4/4	/	/	/
Sun Yueying (resigned)	11/11	/	/	2/2	4/4	/	/	1/1
Executive Directors								
Tian Huiyu	17/17	5/5	5/5	/	/	/	/	1/1
Liu Jianjun	3/3	/	/	/	/	/	2/2	/
Wang Liang	3/3	/	/	/	3/3	/	/	/
Li Hao (resigned)	4/4	/	/	/	2/2	/	2/2	/
Independent Non-Executive Directors								
Leung Kam Chung, Antony	15/17	/	/	4/5	4/4	/	/	1/1
Zhao Jun	17/17	/	5/5	/	/	2/2	5/5	1/1
Wong See Hong	17/17	/	/	/	/	7/7	5/5	1/1
Li Menggang	17/17	/	/	5/5	/	7/7	/	1/1
Liu Qiao	17/17	/	5/5	5/5	4/4	/	/	1/1
Tian Hongqi	5/5	/	/	/	/	2/2	2/2	/
Pan Chengwei (resigned)	12/12	/	5/5	/	/	5/5	3/3	1/1

Notes: (1) During the reporting period, the Board of Directors of the Company held a total of 17 meetings, and the special committees under the Board of Directors held a total of 35 meetings.

(2) Actual number of attendance does not include attendance by proxy.

(3) Mr. Li Hao has ceased to be an Executive Director of the Company since 8 April 2019, Ms. Sun Yueying has ceased to be a Non-Executive Director of the Company since 27 June 2019, and Mr. Pan Chengwei has ceased to be an Independent Director of the Company since 5 August 2019.

(4) Mr. Luo Sheng has been a Non-Executive Director of the Company since 12 July 2019, and Mr. Tian Hongqi has been an Independent Director of the Company since 5 August 2019. Both Mr. Liu Jianjun and Mr. Wang Liang have been the Executive Directors of the Company since 25 August 2019.

7.4.6 Securities transactions of Directors, Supervisors and 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, so far as the Company is aware, all the Directors and Supervisors of the Company had complied with the aforesaid Model Code during the reporting period.

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

7.4.7 Performance of duties by Independent Non-Executive Directors

The Board of Directors of the Company currently has six Independent Non-Executive Directors, which meets the requirement that at least one third of the total Directors of the Company shall be Independent Directors. The qualification, number and proportion of Independent Non-Executive Directors are in compliance with the relevant requirements of the CBIRC, the CSRC, Shanghai Stock Exchange and the Hong Kong Listing Rules. All the six Independent Non-Executive Directors of the Company are not involved in the circumstances set out in Rule 3.13 of the Hong Kong Listing Rules which would cause doubt on their independence. The Company has received from the Independent Non-Executive Directors their respective annual confirmation of independence which was made in accordance with Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Company is of the opinion that all the Independent Non-Executive Directors have complied with the requirement of independence set out in the Hong Kong Listing Rules. The majority of members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related Party Transactions Management and Consumer Rights Protection Committee under the Board of Directors of the Company are Independent Non-Executive Directors, and all of such committees are chaired by an Independent Non-Executive Director. During the reporting period, the six Independent Non-Executive Directors maintained communication with the Company through personal attendance at the meetings, on-site visits, research and investigations and conferences. They effectively performed their roles as Independent Non-Executive Directors by diligently attending the meetings held by the Board of Directors and its various special committees, actively expressing their opinions and suggestions and attending to the interests and requests of minority shareholders. For details of the attendance of Independent Non-Executive Directors at the meetings convened by the Board of Directors and its special committees, please refer to "Attendance of Directors at relevant meetings" in this report.

During the reporting period, the Independent Non-Executive Directors of the Company expressed their independent opinions on significant matters such as the profit appropriation plan, nomination and election of directors, engagement of accounting firms and related party transactions. They made no objection to the resolutions of the Board of Directors and others of the Company in the year.

According to the "Rules Governing Independent Directors' Work on Annual Reports" of the Company, the Independent Non-Executive Directors of the Company listened to the reports on the operation of the Company in 2019, believing that such reports had fully and objectively reflected the operation of the Company as well as the progress of significant matters in 2019. They recognised and were satisfied with the work performed and the results achieved in 2019. They also reviewed the unaudited financial statements of the Company, and discussed with the certified public accountants in charge of annual audit in respect of major matters and formed their written opinions; they reviewed the procedures for convening board meetings in the year, the decision-making procedures for matters on the agenda and the adequacy of information about such meetings; they reviewed the continuing connected transactions of the Company and made confirmations as required by the Hong Kong Listing Rules.

7.5 Special Committees under the Board of Directors

There are six special committees under the Board of Directors of the Company, namely the Strategy Committee, the Nomination Committee, the Remuneration and Appraisal Committee, the Risk and Capital Management Committee, the Audit Committee and the Related Party Transactions Management and Consumer Rights Protection Committee.

In 2019, all the special committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 35 meetings to study and review 135 significant issues, including strategic implementation and assessment, FinTech, profit appropriation, annual financial budget and final account, remuneration and appraisal, capital management plan, comprehensive risk management and internal control, and reported their audit opinions and advices to the Board of Directors by submitting meeting minutes and holding on-site meetings, hence fully playing its role in assisting the Board of Directors to make scientific decisions.

The composition and duties of the six special committees under the Board of Directors of the Company as well as their work in 2019 are summarised as follows:

7.5.1 Strategy Committee

The Strategy Committee consists of Non-Executive Directors and Executive Directors. The incumbent members of the Strategy Committee are Li Jianhong (Chairman), Fu Gangfeng, Luo Sheng, all being Non-Executive Directors and Tian Huiyu (an Executive Director). The Strategy Committee is mainly responsible for formulating the operation and management goals and the medium-to-long term development strategies of the Company, as well as supervising and examining the implementation of its annual operation plan and investment plan.

Main authorities and duties:

1. Formulate the operational goals and the medium-to-long term development strategies of the Company, and make an overall assessment on strategic risks;
2. Consider the material investment and financing plans and make proposals to the Board of Directors;
3. Supervise and review the implementation of the annual operation and investment plans;
4. Evaluate and monitor the implementation of the Board resolutions;
5. Make recommendations and proposals on the important issues for discussion and determination by the Board of Directors; and
6. Any other tasks delegated by the Board of Directors.

In 2019, the Strategy Committee focused on reviewing the development strategy rolling plan and the use of the Fintech Innovation Project Fund and other proposals and made prospective deployment of the business model for development stage 3.0. Following the strategic principle of "adhering to long-term strategies, tapping existing advantages, focusing on technology-driven development and embracing changes", the committee firmly promoted the "Digital Bank" transformation, ensured the long-term and normalised investment in Fintech innovations and supported the research and establishment of an adaptive human resource management mechanism. It also put forward a proposal on incorporating the market-oriented mechanism on talent selection, employment and remuneration incentives and the Fintech investment policies into the Company's Articles of Association, so as to provide a strong institutional guarantee for implementing the twin-driver strategy of "talents + innovations".

Moreover, the Strategy Committee also considered the annual financial budget and final account report, the business plan implementation report, the authorisation and issuance of the Write-down Undated Capital Bonds and other matters.

7.5.2 Nomination Committee

The majority of members of the Nomination Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Nomination Committee include Wong See Hong (Chairman), Li Menggang and Liu Qiao (all being Independent Non-Executive Directors), Li Jianhong (a Non-Executive Director) and Tian Huiyu (an Executive Director). The Nomination Committee is mainly responsible for formulating the procedures and standards for election of the Directors and senior management, conducting preliminary verification on the qualification for appointment of the Directors and senior management and making proposals to the Board of Directors.

Main authorities and duties:

1. Review the structure, size and composition of the Board of Directors (including their expertise, knowledge and experience) at least once a year and make recommendations on any proposed changes to the Board of Directors to implement the strategies of the Company according to the Company's business operation, asset scale and shareholding structure of the Company;
2. Study the standards and procedures for selection of Directors and senior management, and make recommendations to the Board of Directors;
3. Conduct extensive searches for the qualified candidates for Directors and senior management;
4. Conduct preliminary examination on the candidates for Directors and senior management and make recommendations to the Board of Directors; and
5. Any other tasks delegated by the Board of Directors.

In view of the expiration of the term of office of the Tenth Session of the Board of Directors in 2019, the Nomination Committee studied and formulated a re-election plan according to the latest provisions of external regulations and the Company's Articles of Association regarding Board structure and the nomination and election of Directors, so as to clarify the number of members and the composition structure of the Board of Directors as well as the way of election of various Directors. The Nomination Committee also successively completed the procedures for selection of five Executive Vice Presidents, the Chief Financial Officer and the Secretary of the Board of Directors and other senior executives. Besides, according to regulatory requirements and with comprehensive consideration of various factors such as education background, work experience and professional knowledge, the Nomination Committee initially reviewed the qualifications of the 18 candidates for the Directors of the Eleventh Session of the Board of Directors and submitted the list of candidates to the Board of Directors and the shareholders' general meeting, providing strong guarantee for the successful re-election of the Board of Directors.

7.5.3 Remuneration and Appraisal Committee

The majority of members of the Remuneration and Appraisal Committee were Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Remuneration and Appraisal Committee currently include Li Menggang (Chairman), Leung Kam Chung, Antony, Liu Qiao (all being Independent Non-Executive Directors), Hong Xiaoyuan and Wang Daxiong (both being Non-Executive Directors). The Remuneration and Appraisal Committee is responsible mainly for reviewing the remuneration management system and policies of the Company, formulating the remuneration package for the Directors and senior management, making proposals to the Board of Directors and supervising the implementation of such proposals.

Main authorities and duties:

1. Study the standards for assessment of Directors and senior management and make assessments and put forward proposals depending on the actual conditions of the Company;
2. Study and review the remuneration policies and proposals in respect of Directors and senior management of the Company, make recommendations to the Board of Directors and supervise the implementation of such proposals;
3. Review the systems and policies for remuneration management of the whole Bank; and
4. Any other tasks delegated by the Board of Directors.

In 2019, the Remuneration and Appraisal Committee continued to guide the cadres and employees of the Company to follow the strategic principle of "adhering to long-term strategies and tapping existing advantages", thoroughly implement the mid- and long-term strategic goals set by the Board of Directors, continuously enriched the connotation of the incentive and restrictive mechanism, and studied and improved the incentive plan and promoted the implementation thereof; the Remuneration and Appraisal Committee also reviewed and formulated the "Implementation Rules for Management of Benefit Package and Business Expenditures of Responsible Persons of China Merchants Bank (《招商銀行負責人履職待遇和業務支出管理實施細則》)" to further standardise the performance benefits and operational expenditures of relevant executives. Pursuant to the provisions of the H Share Appreciation Rights Scheme, the Remuneration and Appraisal Committee conducted validity appraisal and price adjustment in respect of the appreciation rights granted, which ensured the continuous implementation of the medium-to-long term incentive mechanism of the Company.

7.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee are Hong Xiaoyuan (Chairman), Zhang Jian, Wang Daxiong, Luo Sheng (all being Non-Executive Directors), Wang Liang (an Executive Director) and Liu Qiao (an Independent Non-Executive Director). The Risk and Capital Management Committee is mainly responsible for supervising the status of risk management by the senior management of the Company in relation to various major risks, making regular assessment on the risk policies, risk-withstanding ability and capital management status of the Company and submitting proposals on perfecting the management of risks and capital of the Company.

Main authorities and duties:

1. Supervise the status of risk control by the senior management of the Company in relation to credit risk, market risk, operational risk, liquidity risk, strategic risk, compliance risk, reputation risk, country risk and other risks;
2. Make regular assessment on the risk policies, management status, risk-withstanding ability and capital status of the Company;
3. Perform relevant duties under the Advanced Measurement Approach for Capital Measurement pursuant to the authorisation given by the Board of Directors;
4. Submit proposals on perfecting the management of risks and capital of the Company;
5. Arrange and instruct risk prevention works in accordance with the authorisation of the Board of Directors; and
6. Any other tasks delegated by the Board of Directors.

In 2019, the Risk and Capital Management Committee continued to implement the Board of Director's strategic principles of "quality first, efficiency in priority, risk controllable, and moderate scale", adhered to the long-term and prudent risk management philosophy, and always maintained a strategic focus on risk management. It assisted the Board of Directors in strengthening the management of comprehensive risk, major asset allocation, capital replenishment, money laundering and sanction risks, external agency cooperation risk, collection and disposal of non-performing assets and other areas, and actively implemented the Board of Directors' target requirements of "outrunning the market and outperforming the peers".

The Risk and Capital Management Committee studied and considered various resolutions on the comprehensive risk reports, major asset allocation plan, the risk preference implementation report and the comprehensive risk consolidated management plan for each quarter. It has strengthened the comprehensive risk management system at the group level of the Bank, promoted the integration of off-balance sheet asset management business and related subsidiaries into the comprehensive risk management system, and strengthened downward penetration of risk management of subsidiaries. It has also studied and improved the major asset allocation plan across the Bank, and made corresponding adjustments to the whole Bank's major asset allocation based on macroeconomic growth and industrial structure adjustments. Moreover, it has also reviewed the annual business continuity management work report, the annual anti-money laundering work report, the work report on compliance of institutions in the United States, the stress test report, the verification policy implementation report and the outsourcing management report, effectively practiced the prudent risk management concepts and assisted the Board of Directors in further enhancing its risk management capability.

7.5.5 Audit Committee

The majority of members of the Audit Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Audit Committee are Tian Hongqi (Chairman), Zhao Jun, Wong See Hong, Li Menggang (all being Independent Non-Executive Directors) and Zhou Song (a Non-Executive Director). None of the above persons has ever served as a partner of the incumbent auditors of the Company. The Audit Committee is mainly responsible for examining the accounting policies and financial position of the Company; and is responsible for the annual audit work of the Company, proposing the appointment or replacement of external auditors and examining the status of the internal audit and internal control of the Company.

Main authorities and duties:

1. Propose the appointment or replacement of external auditors;
2. Monitor the internal audit system of the Company and its implementation, and evaluate the work procedures and work effectiveness of the internal audit department;
3. Coordinate the communications between internal auditors and external auditors;
4. Audit the financial information of the Company and disclosure of such information, and is responsible for the annual audit work of the Company, including issue of a conclusive report on the truthfulness, accuracy, completeness and timeliness of the information contained in the audited financial statements, and submit the same to the Board of Directors for consideration;
5. Examine the internal control system of the Company, and put forward the advices to improve the internal control of the Company;
6. Review and supervise the mechanism for the Company's employees to whistle blow any misconduct in respect of financial statements, internal control or otherwise, so as to ensure that the Company always handles the whistle blowing issues in a fair and independent manner and takes appropriate actions;
7. Examine the accounting policies, financial reporting procedures and financial position of the Company; and
8. Any other tasks delegated by the Board of Directors.

In 2019, based on the quarterly regular meeting system, the Audit Committee mainly reviewed the regular reports and internal and external audit reports to supervise and verify the truthfulness, accuracy and timeliness of information set out in the financial statements. The Company obtained the findings of internal audits in a timely manner and strengthened bank-wide self-examination and the rectification of and the accountability for the problems concerned by relevant regulators, and promoted an effective communication mechanism between internal and external audits by constantly enhancing the communication with internal and external auditors, gave full play to its important role in monitoring operation management, disclosing risks and issues and improving management levels, and effectively discharged relevant functions and promoted enhancement of management level.

According to the "Work Procedures on Annual Reports for Audit Committee under the Board of Directors" adopted by the Company, the Audit Committee under the Board of Directors of the Company performed the following duties in preparing and reviewing the annual report for 2019:

1. The Audit Committee considered and discussed the accounting firm's audit plan for 2019 and the unaudited financial statements of the Company.
2. In the course of annual audit and after the issue of a preliminary audit opinion by the auditors in charge of annual audit, the Audit Committee reviewed the report on the operation of the Company for 2019, exchanged opinions on the significant matters and audit progress with the auditors in charge of annual audit, reviewed the financial statements of the Company, and then formed written opinions on the above issues.
3. Before the convening of the annual meeting of the Board of Directors, the Audit Committee reviewed the Company's Annual Report for 2019 and agreed to submit the same to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and submitted to the Board of Directors the conclusion report prepared by the auditors in charge of annual audit in respect of the audit work of the Company in 2019.

7.5.6 Related Party Transactions Management and Consumer Rights Protection Committee

The majority of members of the Related Party Transactions Management and Consumer Rights Protection Committee are Independent Non-Executive Directors, and the committee was chaired by an Independent Non-Executive Director. The members of the Related Party Transactions Management and Consumer Rights Protection Committee are Zhao Jun (Chairman), Wong See Hong and Tian Hongqi (all being Independent Non-Executive Directors), Su Min (a Non-Executive Director) and Liu Jianjun (an Executive Director). The Related Party Transactions Management and Consumer Rights Protection Committee is mainly responsible for inspection, supervision and review of related party transactions of the Company and protection of the legitimate rights and interests of consumers.

Main authorities and duties:

1. Identify related parties of the Company pursuant to relevant laws and regulations;
2. Inspect, supervise and review the major related party transactions and continuing connected transactions, and control the risks associated with related party transactions;
3. Review the administrative measures on related party transactions of the Company, and monitor the establishment and improvement of the related party transaction management system of the Company;
4. Review the announcements on related party transactions of the Company;
5. Review the strategies, policies and objectives of the consumer rights protection work of the Company;
6. Regularly listen to the report on the implementation of the consumer rights protection work of the Company and the relevant resolution, and make recommendations to the Board of Directors in respect of the relevant work;
7. Supervise and evaluate the comprehensiveness, timeliness and effectiveness of the consumer rights protection work of the Company, the duty performance of senior management in the protection of consumer rights, and the information disclosure of consumer rights protection work; and
8. Any other tasks delegated by the Board of Directors.

In 2019, the Related Party Transactions Management and Consumer Rights Protection Committee reviewed the fairness of the related party transactions, assisted the Board of Directors to ensure the legitimacy and compliance of related party transactions, carried out relevant responsibilities of consumer right protection in accordance with the regulatory requirements, reviewed and approved various resolutions on, among others, the 2018 Annual Related Party Transaction Report and the List of Related Parties in 2019, reviewed and approved the related party transactions of the Company with China Merchants Group Ltd., China COSCO Shipping Corporation Limited, Gemdale Corporation, Merchants Union Consumer, CMB Financial Leasing and Guotai Junan Co., Ltd. (國泰君安股份有限公司), reviewed and approved the cap for the continuing connected transactions with China Merchants Fund, and reviewed and approved the report on consumer rights protection.

7.6 Corporate Governance Functions

During the reporting period, the Board of Directors has performed the following duties on corporate governance:

1. Formulate and evaluate the policies and practices on corporate governance of the Company and make certain amendments as it deems necessary, so as to ensure the validity of those policies and practices;
2. Evaluate and supervise the trainings and the improvement of professional competence of Directors and senior management;
3. Evaluate and supervise the policies and practices of the Company for compliance with laws and regulatory requirements;
4. Formulate, evaluate and supervise the Code of Conduct and the Compliance Handbook applicable to the Directors and employees of the Company;
5. Review the compliance of the Company with the Code of Corporate Governance and the disclosures in the Report of Corporate Governance; and
6. Manage, control, monitor and assess the risks of the Company and evaluate the internal control status of the Company. The Board of Directors is of the opinion that the risk management and internal control systems of the Company are effective.

7.7 Board of Supervisors

The Board of Supervisors is a supervisory body of the Company and is accountable to the shareholders' general meetings, and effectively oversees the strategic management, financial activities, internal control, risk management, legal operation, corporate governance, as well as the duty performance of the Board of Directors and senior management with an aim to protect the legitimate rights and interests of the Company, its shareholders, employees, creditors and other stakeholders.

7.7.1 Composition of the Board of Supervisors

The Board of Supervisors of the Company consists of nine members, including three Shareholder Supervisors, three Employee Supervisors and three External Supervisors. The proportion of Employee Supervisors and External Supervisors in the members of the Board of Supervisors each meets the regulatory requirements. The three Shareholder Supervisors are from large- state-owned enterprises where they serve important posts and have extensive experience in business management and professional knowledge in finance and accounting; the three Employee Supervisors have long participated in banking operation and management, and thus accumulated rich professional experience in finance; and the three External Supervisors have professional expertise and rich practical experience in economic management and research, accounting, corporate governance and other areas. Members of the Board of Supervisors of the Company have professional ethics and professional competence required for their performance of duties which ensures the effective supervision by the Board of Supervisors.

A Nomination Committee and a Supervisory Committee are established under the Board of Supervisors.

7.7.2 How the Board of Supervisors performs its supervisory duties

The Board of Supervisors performs its supervisory duties primarily by: holding regular meetings of Board of Supervisors and special committees, attending shareholders' general meetings, board meetings and its special committee meetings, attending various meetings on operation and management held by the senior management; reviewing various documents of the Company, reviewing work reports and specific reports of the senior management, conducting opinion exchanges and discussions, carrying out special investigations and surveys at domestic and overseas branches of the Company on a collective or separate basis and having talks with Directors and the senior management over their duty performance in the year, communicating with external auditors regularly, etc. By doing so, the Board of Supervisors comprehensively monitors the operation and management status, risk management status and internal control status of the Company as well as duty performance of the Directors and the senior management, and puts forward the constructive and targeted operation and management advice and supervision opinions.

7.7.3 Duty performance of the Board of Supervisors during the reporting period

During the reporting period, the Board of Supervisors convened a total of ten meetings, of which three were on-site meetings and seven were meetings convened and voted by correspondence. 33 proposals regarding business operation, financial activities, internal control, risk management, internal audit, related party transactions, corporate governance, evaluation of the duty performance of Directors and Supervisors and audit on the resignation of senior management were considered, and 15 special reports involving implementation of strategic planning and risk appetite, disposal of non-performing assets, prevention and control of crimes, consumer rights protection were reviewed at those meetings.

In 2019, the Company convened one shareholders' general meeting and seven on-site board meetings. Supervisors attended the shareholders' general meeting and were present at all the on-site board meetings, and supervised the legitimacy and compliance of convening the shareholders' general meeting and the Board meetings, voting procedures, the Directors' attendance at those meetings, issue of opinions and voting details.

During the reporting period, all the three External Supervisors were able to perform their supervisory duties independently. The External Supervisors discharged their supervisory duties by attending meetings of the Board of Supervisors, convening special committee meetings of the Board of Supervisors, participating in shareholders' general meeting and meetings of the Board of Directors or any of its special committees, participating in the Board of Supervisors' investigations and surveys conducted at branch level on a collective or separate basis, proactively familiarising themselves with the operation and management and the implementation of strategies of the Company, and actively participating in studies and reviews on significant matters. During the adjournment of the meetings of the Board of Directors and the Board of Supervisors, the External Supervisors reviewed various documents and reports of the Company, and exchange opinions with the Board of Directors and senior management in respect of the problems found in a timely manner, thereby playing an active role in assisting the Board of Supervisors in performing their supervisory duties.

During the reporting period, the Board of Supervisors of the Company had no objection to each of the supervisory matters.

7.7.4 Operation of the special committees under the Board of Supervisors

The Nomination Committee and the Supervisory Committee are established under the Board of Supervisors, each consisting of four Supervisors, and those committees were chaired by an External Supervisor.

The Nomination Committee under the Board of Supervisors

As at the end of the reporting period, the members of the Nomination Committee of the Eleventh Session of the Board of Supervisors were Ding Huiping (Chairman), Peng Bihong, Wen Jianguo and Liu Xiaoming. The major duties of the Nomination Committee are as follows: to make proposals to the Board of Supervisors on the size and composition of the Board of Supervisors; to study the standards and procedures for the election of Supervisors and propose the same to the Board of Supervisors; to conduct extensive searches for qualified candidates for Supervisors; to undertake preliminary examination on the qualifications of the candidates for Supervisors nominated by Shareholders and provide relevant recommendations; to supervise the procedures for election of Directors; to evaluate the Board of Directors, Board of Supervisors and senior management and the duty performance of their members, and submit reports to the Board of Supervisors; to supervise whether the remuneration management system and policies of the whole Bank and the remuneration package for its senior management are scientific and reasonable.

In 2019, the Nomination Committee under the Board of Supervisors held three meetings at which it studied and considered the evaluation process and specific conclusions of the Board of Supervisors on the duty performance of the Board of Directors, the Board of Supervisors and the senior management and their members in 2018, the procedures and proposals for re-election of a new session of the Board of Supervisors and the nomination of candidates for Shareholder Supervisors and External Supervisors.

The Supervisory Committee under the Board of Supervisors

As at the end of the reporting period, the members of the Supervisory Committee of the Eleventh Session of the Board of Supervisors were Han Zirong (Chairman), Wu Heng, Xu Zhengjun and Wang Wanqing. The major duties of the Supervisory Committee are to formulate the supervisory plans for performance of supervisory duties by the Board of Supervisors; to formulate the supervisory plans for financial activities of the Company and conduct relevant examinations; to supervise the adoption by the Board of Directors of prudent business philosophy and value standards and its formulation of suitable development strategies in line with the actual situations of the Company; to conduct supervision and assessment on the important financial decisions of the Board of Directors and the senior management and their implementations, the establishment and improvement of the internal control governance structure and the overall risk management governance structure and the division of duties of relevant parties and their duty performance; to formulate the specific plans for reviewing the operation decisions, internal control and risk management of the Company under the authorisation of the Board of Supervisors when necessary; to formulate the plans for conducting resignation audit on Directors, President and other senior management when necessary.

In 2019, the Supervisory Committee under the Board of Supervisors convened a total of three meetings at which it reviewed and considered the work plan of the Board of Supervisors for 2019 and the audit on the resignation of senior management and major issues of concern for risk management and control. In addition, members of the Supervisory Committee under the Board of Supervisors were also present at various on-site meetings convened by the Risk and Capital Management Committee and Audit Committee under the Board of Directors. They also reviewed the consideration and discussion of the above special committee on the financial decisions, risk management, capital management, internal control compliance, internal audit and other aspects of the Company, and offered comments and suggestions on some of the issues.

7.8 Trainings and Investigations/Surveys conducted by Directors and Supervisors during the Reporting Period

During the reporting period, the Board of Directors and the Board of Supervisors of the Company organised seven investigations/surveys, through which the duty performance, decision-making and effectiveness of supervision of our Directors and Supervisors continued to improve.

During the reporting period, the Board of Directors of the Company organised two investigations/surveys/visits for the Directors, which involved visits to the Credit Card Center and some tier-1 and tier-2 branches to have deep understanding of the operation and management of the Head Office and its branches and sub-branches, implementation of the "Light-operation Bank" strategy, development of key businesses, risk management and internal control and consumer rights protection, and put forward targeted opinions and suggestions. In addition, the Company's Non-Executive Directors reviewed the "Report on Current Situation of Anti-Money Laundering and Sanction Compliance (《關於當前反洗錢及制裁合規形勢的報告》)" of the Company to have deeper understanding of the policy guidelines and regulatory requirements of regulators for improving the regulatory systems and mechanisms of anti-money laundering, anti-terrorist financing and anti-tax evasion, and provided constructive opinions and suggestions for the Company to improve its anti-money laundering risk management system, speed up application of financial technologies in anti-money laundering management, optimise relevant processes and accelerate personnel trainings.

During the reporting period, the Board of Supervisors continued to optimise and improve the ways and methods of researches by focusing on key areas of concerns to identify and solve problems, hence effectively improving the quality and efficiency of researches. The Board of Supervisors organised a total of four collective surveys in the year, including three domestic surveys and one overseas survey, involving nine branches and sub-branches. During the surveys, members of the Board of Supervisors conducted discussions with management of branches and on-site visits to grassroots staff, customers and peers to gain in-depth understanding of the strategic development, risk management and control, internal control compliance and basic management of the branches, and the effectiveness of the policy of "empowering frontlines and reducing burden on grassroots (賦能減負)" of the Head Office, and put forward high-quality opinions and suggestions on the development of second-tier branches and the operation and management of overseas branches. During the year, the Board of Supervisors compiled and distributed a total of four issues of the "Work Summary of the Board of Supervisors (《監事會工作要情》)", submitting the investigation results and recommendations of the Board of Supervisors to the Board of Directors and the senior management in a timely manner, and coordinated and promoted the solving of key and difficult issues to facilitate the operation and development of the Company. With focus on the roots of risks, the Board of Supervisors used internal audit to trace the root cause, find out the reasons and give warning of the issues. The Board of Supervisors supervised the departments under the Head Office to effectively solve the problems encountered in root operations in respect of performance evaluation, resource allocation, product support, talent training, etc. Through adjustment and optimisation, the researches of the Board of Supervisors have formed a closed-loop full process of information collection, problem sorting, supervised solution and communication and feedback. The mechanism has been running smoothly with remarkable effect.

During the reporting period, the Directors of the Company participated in relevant trainings or researches according to the requirements on duty performance, the contents of which include corporate governance, policies and regulations and banking operation and management. The above trainings or researches helped improve the duty performance of the Directors, ensure that the Directors were fully aware of the information required for duty performance, and continued to make contributions to the Board of Directors of the Company based on the actual situation of the Company. If necessary, the Company would assist the Directors to attend appropriate trainings and researches and make reimbursements for relevant expenses.

During the reporting period, part of the Company's new Supervisors attended the training courses for directors and supervisors organised by the Shenzhen Securities Regulatory Bureau to further deepen their learning and understanding of corporate governance operation and supervisory functions, which effectively promoted the improvement of their duty performance.

7.9 Company Secretary under Hong Kong Listing Rules

During the reporting period, Mr. Liu Jianjun, the company secretary of the Company appointed on 24 April 2019 to replace Mr. Wang Liang, and Mrs. Seng Sze Ka Mee Natalia of Tricor Services Limited, an external services provider, are the joint company secretaries of the Company under Hong Kong Listing Rules. Mr. Liu Jianjun is the major contact person of the Company on internal issues.

During the reporting period, Mr. Liu Jianjun and Mrs. Seng Sze Ka Mee Natalia attended the relevant professional trainings for not less than 15 hours in compliance with the requirements of Rule 3.29 of Hong Kong Listing Rules.

After the reporting period, on 1 January 2020, Ms. Ho Wing Tsz Wendy of Tricor Services Limited, an external services provider, was appointed as the joint company secretary of the Company to replace Ms. Seng Sze Ka Mee Natalia.

7.10 Misconduct Reporting and Monitoring

During the reporting period, the Company had no internal cases that inflict huge losses, or external cases or incidents of theft or robbery, or material safety issues.

7.11 Communication with Shareholders

Investor relations

In 2019, the Company remained investor-oriented, strove to improve the openness and effectiveness of communication with the capital market in a positive, innovative and professional manner. Through a variety of innovative forms, the Company introduced its development strategy, business strategy, business highlights and investment value more comprehensively and deeply to various investors and analysts at home and abroad, and responded to various concerns from the capital market in a timely and efficient manner. The Company's full-year performance in the capital market achieved the goal of "outrunning the market and outperforming the peers". The valuation of the Company's A+H Shares remained at the forefront in the domestic banking industry, the full-year growth rate exceeded the market and industry averages and the market value maintained the fifth place among the domestic banks.

During the reporting period, the Company rolled out one global road show and two domestic road shows for its annual results, and held two performance presentations and one media press. A total of 427 institutional investors or analysts and 32 media reporters at home and abroad attended the Company's 2018 performance presentation and press conference, setting the Company's highest record since its listing in 2002.

Chairman Li Jianhong and President Tian Huiyu attached great importance to investor relations management. They attended the 2018 performance presentation and press conference, and gave detailed answers to market and media concerns. Following the release of our 2018 annual results, President Tian Huiyu and other senior management formed two road-show teams to roll out global road shows in Hong Kong, Europe, the United States and other regions, visiting a total of 97 key investment institutions, and communicating with them adequately and intensively on the strategic visions, Fintech transformation, business development and special advantages of the Company. After the release of the 2019 interim results, Liu Jianjun, an Executive Vice President and the Secretary of the Board of Directors, led a team to roll out a road-show exchange campaign in Shanghai and Hong Kong, meeting with 53 key investment institutions. Upon the release of the third quarterly results, the Company visited a total of 22 key institutional investors in Beijing, Guangzhou and Shenzhen and conducted in-depth exchanges with them. In addition, the Company received a total of 109 visits and telephone surveys by 322 domestic and foreign institutional investors and analysts in the year, attended the investor conferences held by 36 investment banks or securities brokers at home and abroad, and conducted 156 one-to-one or one-to-many discussions with a total of 1,082 Institutional investors. We also answered hundreds of phone calls from our investors and processed hundreds of messages from our investors on the Company's official website, investors' mailbox, and SSE E-interaction. The above measures satisfied the needs of our investors and analysts to communicate with the Company in an effective manner.

Information disclosure

The Board of Directors, the Board of Supervisors and senior management of the Company attached great importance to the Company's information disclosure. The Company's information disclosure is based on good corporate governance practice, sound internal control, and an effective information disclosure system, which ensures that our investors can obtain information in a timely, accurate and equal manner.

During the reporting period, the Company, upon completion of the statutory information disclosure in the year, further strengthened the initiative and transparency of information disclosure. In 2019, the Company issued a total of 283 disclosure documents of approximately 2.16 million words on the stock exchanges in Shanghai and Hong Kong, disclosing all major issues in a timely, fair, open, and just manner, strictly fulfilling its statutory information disclosure obligation without any disclosure errors. Meanwhile, the Company further enhanced the quality of voluntary information disclosure, with highlighted emphasis and distinctive features. Through strengthening analysis of development strategies and the effectiveness of implementation thereof in regular reports, it further demonstrated the Company's achievements in its transformation into a "Digital Bank". Thanks to the detailed data analysis, the disclosures fully reflect the Company's differentiated competitive strength from its peers, and give a honest analysis of the difficulties and challenges faced by the Company, providing sufficient basis for investors to fully understand the Company's operating conditions.

During the reporting period, through collating the information disclosure management system comprehensively, the Company carried out comprehensive revision of the terms of the information disclosure management system according to the strict principles of domestic and overseas regulatory rules and the latest regulatory requirements, and formally implemented the revised terms after review and approval by the Board of Directors. The revised "Management System for Information Disclosure of China Merchants Bank Co., Ltd. (《招商銀行股份有限公司資訊披露事務管理制度》)" kept pace with the latest supervisory requirements and, in the meantime, adapted more to the needs of internal management of the Company's information disclosure practice, providing a strong guarantee for improving the Company's information disclosure system and strengthening compliance management of information disclosure practice.

The Company's well-regulated operation and outstanding information disclosure practice met with full recognition from the regulatory authorities, and received the highest grade of "A" in the annual appraisal of information disclosure of listed companies organised by the SSE.

7.12 Shareholders' Rights

Convening of extraordinary shareholders' general meetings

An extraordinary shareholders' general meeting shall be convened by the Board of Directors within two months upon request in writing by shareholders individually or jointly holding more than 10% of the Company's voting shares.

Making proposals at the shareholders' general meetings

If the Company convenes a shareholders' general meeting, shareholders individually or jointly holding more than 3% of the total issued voting shares of the Company may submit interim proposals in writing to the Company 15 working days before the convening of the shareholders' general meeting and submit the same to the convenor. The convenor shall issue a supplemental notice to the shareholders' general meeting and announce the contents of the interim proposals within two working days after receiving the proposals.

Convening of extraordinary board meeting

An extraordinary board meeting may be held if it is requisitioned by shareholders representing more than one-tenth (10%) of the voting rights. The Chairman shall convene the extraordinary board meeting within ten (10) days upon receiving such proposal.

Making inquiries to the Board of Directors

Shareholders are entitled to review the information on the Company (including the Articles of Association, the status of share capital, the minutes of the shareholders' general meeting, resolutions of board meetings, resolutions of meetings of the Board of Supervisors, financial and accounting reports) in accordance with the provisions of the Articles of Association of the Company upon the submission of written documents certifying the class and quantity of shares of the Company held by the shareholders, the identity of whom has been verified by the Company.

Cash dividend policies

The Company has formulated its cash dividend policies. For details, please refer to the "formulation and implementation of the Company's cash dividend policies" in Chapter III.

7.13 Major Amendments to the Articles of Association of the Company

During the reporting period, the Company amended the Articles of Association. For details, please refer to the shareholders' circular, the documents of the shareholders' general meeting and the announcement of the Company published on 10 May 2019, 11 June 2019 and 23 October 2019, respectively.

7.14 Statement made by the Directors about Their Responsibility for the Financial Statements

The senior management of the Company provided the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The Directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2019 to present a true view of the operating results of the Company. So far as the Directors are aware, there is no material uncertainty related to events or conditions that might have a significant adverse effect on the Company's ability of sustainable operation.

7.15 Compliance with the Corporate Governance Code

During the reporting period, the Company has applied the principles of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules, and has complied with all the code provisions and recommended practices (if applicable).

7.16 Internal Control

During the reporting period, according to the unified deployment of the CBIRC, the Company has conscientiously organised campaigns "to reinforce its results on rectification of disorders and promote compliance construction", so as to carry out a comprehensive review on the previous rectification of disorders and consolidate rectification results. 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, system construction, processes optimisation, business training, supervision and inspection, etc., and continued to improve the institutional foundation and mechanism guarantee for lawful and compliant operation by consolidating the long-lasting mechanism for preventing the "stubborn diseases" of disorders and risk cases. Considering its own actual conditions, the Company continued to enhance the quality and efficiency of internal management according to the policy of "removing inherent barriers, empowering frontlines and reducing burden on grassroots (橫向打破豎井、 縱向賦能減負)". Faced with the new normal fueled by strict regulations and rectification of disorders, the Company continued to organise and conduct compliance education, case warning trainings and code of conduct education, continuously strengthened the employees' awareness of risks and compliance, vigorously promoted the professional ethics in integrity and compliance with disciplines, and actively fostered a compliance culture in which "we cannot violate regulations, dare not violate regulations, and are 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; 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 the compliance operation and healthy development of the Company's various businesses.

During the reporting period, the Company organised evaluation campaigns on the status of internal control of the whole Bank in 2019. 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. For details, please refer to the "Report of Assessment on Internal Control of China Merchants Bank Co., Ltd. in 2019", and the "Auditors' Report on Internal Control" issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP with standard unqualified opinions.

7.17 Internal Audit

The Company has an independent and vertical internal audit management system. The Board of Directors shall assume the ultimate responsibility for the independence and effectiveness of internal audit, being responsible for reviewing and approving the constitutional documents of internal audit, establishing the audit organisation system, formulating the medium-to-long term audit plan and the annual audit plan, appointing the head officer of the audit department, providing necessary support to carry out internal audit work independently and objectively, and assessing the independence and effectiveness of internal audit work. The Board of Directors has an Audit Committee which, upon receiving its authorisation, is responsible for reviewing important systems and reports such as the constitutional documents of internal audit, approving the medium-to-long term audit plan and the annual audit plan, and guiding, assessing and evaluating the internal audit work. The Head Office has an Audit Department which consists of nine audit divisions, which are under the guidance of the Board of Supervisors and senior management, and shall undertake the specific internal audit duties. The Audit Department under the Head Office has nine specialised teams to strengthen off-site audit work such as "research, analysis, organisation and guidance" and enhanced the support and guidance to the audit divisions. Meanwhile, four corresponding audit teams were set up to strengthen the auditing of departments under Head Office, overseas institutions, anti-money laundering work and credit card business. In each audit division, five professionally mixed audit teams were established to strengthen the ongoing audit and rectification following-up of regional branches and institutions.

In 2019, the Audit Department of the Company paid close attention to its strategies, risks and regulatory concerns. According to the work requirement of "empowering frontlines and reducing burden on grassroots (賦能減負)", it emphasised on risk prevention and control to strengthen audit and supervision over key areas, key risks and other key aspects; stressed on special rectifications and took various measures simultaneously to strengthen audit rectifications; and highlighted continuous audit, carried on the shift from post-rectification to the issue of warning before and during the events, proposed audit suggestions timely, and promoted the continuous improvement of mechanism, processes and systems, thus enabling the improvement of operation and management across the Bank.

Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has proactively and effectively carried out supervision on the financial activities, internal control, risk management, lawful operation as well as the duty performance of the Board of Directors and the senior management of the Company pursuant to the "Company Law of the People's Republic of China", the Articles of Association of the Company and the supervisory duties delegated by relevant supervisory authorities.

Independent opinions on relevant matters from the Board of Supervisors:

Lawful Operation

During the reporting period, the business activities of the Company complied with the "Company Law of the People's Republic of China", the "Commercial Banking Law of the People's Republic of China" and the Articles of Association, the internal control system was improved, and the decision making procedures were lawful and valid. None of the Directors and senior management of the Company were found to have violated the relevant laws, regulations or the Articles of Association or had done anything detrimental to the interests of the Company and shareholders.

Authenticity of Financial Statements

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu have audited the financial statements for 2019 in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively and have each produced a standard unqualified audit report, stating that the financial statements have given a true, objective and accurate view of the financial position and operating results of the Company.

Use of Proceeds

During the reporting period, the use of proceeds of the Company was consistent with such usages as committed in the Prospectus of the Company.

Purchase and Disposal of Assets

During the reporting period, the Company is unaware of any insider trading in its acquisition and sale of assets which would damage shareholders' interests or cause loss in the assets of the Company.

Related Party Transactions

During the reporting period, the Board of Supervisors was not aware of any related party transactions which were not conducted on an arm's length basis or were detrimental to the interests of the Company and its shareholders.

Implementation of Resolutions Passed at Shareholders' General Meeting(s)

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the shareholders' general meeting in 2019, and concluded that the Board of Directors had duly implemented relevant resolutions passed at the shareholders' general meeting(s).

Internal Control

The Board of Supervisors had reviewed the "Report on Assessment of Internal Control of China Merchants Bank Co., Ltd. for 2019", and concurred with the Board of Directors' representations regarding the completeness, reasonableness and effectiveness of the internal control system of the Company as well as its implementation.

By Order of the Board of Supervisors

Liu Yuan

Chairman of the Board of Supervisors

20 March 2020

Financial Statements

Independent Auditor's Report

DTTHK(A)(20)I00024

Deloitte. 德勤

To the shareholders of China Merchants Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 152 to 304, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

DTTHK(A)(20)I00024

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance of loans and advances to customers at amortised cost and debt investments at amortised cost	
We identified expected credit loss (ECL) allowance of loans and advances to customers at amortised cost and debt investments at amortised cost as a key audit matter due to the materiality of the balances of these financial assets and judgement involved in deriving the ECL estimates. An expected credit loss model was applied by the Group to estimate ECLs, which involves significant management judgement and estimates in model design, its application and inputs. As at 31 December 2019, as set out in note 22, the Group reported loans and advances to customers at amortised cost of RMB4,230,285 million and RMB222,899 million of expected credit loss allowance. Whilst as set out in note 23(b), the Group reported debt investments at amortised cost of RMB935,288 million and expected credit loss allowance of RMB14,060 million. Key judgements and estimates in respect of the measurement of ECLs include: the criteria selected to identify a significant increase in credit risk (SICR); the identification of credit impairment events; the determination of inputs used in the ECL model, as well as the determination of the forward-looking information to incorporate. Principal accounting policies, accounting estimates and judgement applied in determining the loss allowance of loans and advances to customers at amortised cost and debt investments at amortised cost are set out in notes 4(5) and 5(4) to the consolidated financial statements.	Our audit procedures in relation to the expected credit loss allowance of loans and advances to customers at amortised cost and debt investments at amortised cost included the following: We understood management's process and tested the design and operating effectiveness of key controls across the processes relevant to the ECL estimation of the Group. These controls included the validation and review of the ECL model; the controls over the model data input, including manual controls and automated controls; the automated controls over the ECL model calculation process; the controls over the identification of SICR indicators and impairment evidence. We assessed whether the ECL model applied by the Group has covered all the exposures that should be taken into consideration. In respect of different portfolios of loans and advances to customers at amortised cost and debt investments at amortised cost, we involved our internal modelling specialist to assist us in assessing the appropriateness of the Group's methodology of ECL modelling. We reviewed relevant documents and evaluated the appropriateness and application of the ECL model. With the support of our internal modelling specialist, we assessed the reasonableness of the key definitions, parameters and assumptions used in the ECL model. This included assessing stage determination, probability of default, loss given default, exposure at default and forward-looking information. We selected samples to conduct credit reviews in order to assess whether the significant judgements made by the management regarding SICR and credit impairment events had occurred and were appropriately and timely recognized are appropriate. In addition, we tested the input data samples of the ECL model to evaluate the completeness and accuracy of the data input. We also tested the calculation of the ECL model on a sample basis. For the loans and advances at amortised cost and debt investments at amortised cost at stage 3, we selected samples to test the reasonableness of future cash flows from the borrowers estimated by the Group, including the expected recoverable amount of collateral, to assess whether there were material misstatements in the loss allowance.

DTTHK(A)(20)I00024

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The valuation of the Group's financial instruments, measured at fair value, is based on a combination of market data and valuation models which require a considerable number of inputs. Most of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where observable data is not readily available, as in the case of level 3 financial instruments, estimates are required to determine the unobservable inputs, which involve significant management judgement. We identified the valuation of financial instruments as a key audit matter due to the materiality of the balances and the complexity involved in valuing certain financial instruments, of which significant judgement and estimation are required in determining the valuation technique and the inputs used in the valuation models. As at December 31, 2019, as set out in note 60(g) the Group's financial assets and financial liabilities at fair value totalled RMB1,177,342 million and RMB66,634 million respectively, accounting for 16% and 1% of total assets and liabilities of the Group respectively. Significant estimates applied in fair value of financial instruments and the disclosure of fair value are set out in notes 5(5) and 60(g) to the consolidated financial statements.	Our audit procedures in relation to the valuation of the fair value of financial instruments included the following: We understood and tested the design and operating effectiveness of key internal controls over the determination of valuation model and valuation of the financial instrument at fair value. We evaluated the valuation techniques through comparison with the valuation techniques commonly used in the markets, assessed inputs and assumptions for validity, and against alternative pricing or data sources. Market data inputs are validated using external observable market data. We assessed the level 1 fair values, on a sample basis, by comparing the fair values applied by the Group with publicly available market data. With the support of our internal valuation specialists, we performed independent valuations, on a sample basis, for financial instruments of which the determination of the fair value involves significant management judgement and estimates, and compared our results with those of the Group's.

DTTHK(A)(20)I00024

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Consolidation of Structured Entities	
We identified consolidation of structured entities as an area of key audit matter since significant judgment is applied by management to determine whether or not the Group has control of certain structured entities. The structured entities include the wealth management products, asset management schemes, mutual funds, etc. as disclosed in note 64 to the consolidated financial statements. As described in note 4(1), the consolidation of structured entities is determined based on control. Control is achieved when the investor has power over the investee, the investor is exposed, or has rights, to variable returns from its involvement with the investee; and the investor has the ability to use its power to affect its returns. When performing the assessment of whether the Group has control of structured entities, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services and the Group's exposure to variability of returns from interests that it holds in the structured entities.	Our audit procedures in relation to consolidation of structured entities included the following: We understood and tested the design and operating effectiveness of key controls over the management process in determining the consolidation scope for interests in structured entities as well as understood the purpose for setting up the structured entities. We also evaluated management judgement in whether the Group has control in the structured entities and the conclusion about whether or not the consolidation criteria is met, with assessment, on a sample basis, of the terms of the relevant contracts, including the rights to variable returns of the structured entities and the ability of the Group to use its power to affect its return.

DTTHK(A)(20)I00024

Other Information

The directors of the Bank are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Bank determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

DTTHK(A)(20)I00024

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Bank.
- Conclude on the appropriateness of the directors of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Eric Tong.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

20 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2019	2018
Interest income	6	292,994	270,911
Interest expense	7	(119,904)	(110,527)
Net interest income		173,090	160,384
Fee and commission income	8	79,047	73,046
Fee and commission expense		(7,554)	(6,566)
Net fee and commission income		71,493	66,480
Other net income	9	23,482	20,271
– Disposal of financial instruments at amortised cost		146	(350)
Operating income		268,065	247,135
Operating expenses	10	(91,497)	(81,110)
Operating profit before impairment losses		176,568	166,025
Expected credit losses	14	(61,066)	(60,829)
Impairment losses on other assets		(93)	(8)
Share of profit of joint ventures	25	1,686	1,272
Share of profit of associates	26	37	37
Profit before taxation		117,132	106,497
Income tax	15	(23,709)	(25,678)
Profit for the year		93,423	80,819
Attributable to:			
Equity shareholders of the Bank		92,867	80,560
Non-controlling interests		556	259
Earnings per share			
Basic and diluted (RMB)	17	3.62	3.13

The notes form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019
(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2019	2018
Profit for the year		**93,423**	80,819
Other comprehensive income for the year after tax and reclassification adjustments			
Items that may be reclassified subsequently to profit or loss			
Equity-accounted investees share of other comprehensive income	25	**368**	(36)
Fair value gain on debt instruments measured at fair value through other comprehensive income		**1,640**	6,243
Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income		**626**	496
Cash flow hedge: net movement in hedging reserve		**(102)**	149
Exchange difference on translation of financial statements of foreign operations		**497**	1,995
Items that will not be reclassified to profit or loss			
Fair value gain on equity instruments measured at fair value through other comprehensive income		**729**	332
Remeasurement of defined benefit liability		**1**	(62)
Other comprehensive income for the year, net of tax	16	**3,759**	9,117
Attributable to:			
Equity shareholders of the Bank		**3,693**	9,094
Non-controlling interests		**66**	23
Total comprehensive income for the year		**97,182**	89,936
Attributable to:			
Equity shareholders of the Bank		**96,560**	89,654
Non-controlling interests		**622**	282

The notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2019

(Expressed in millions of Renminbi unless otherwise stated)

	Notes	2019	2018
Assets			
Cash		**15,306**	15,814
Precious metals		**4,094**	6,638
Balances with central banks	18	**552,590**	477,568
Balances with banks and other financial institutions	19	**106,113**	100,160
Placements with banks and other financial institutions	20	**307,433**	313,411
Amounts held under resale agreements	21	**108,961**	199,386
Loans and advances to customers	22	**4,277,300**	3,749,949
Investments at fair value through profit or loss	23(a)	**398,276**	330,302
Derivative financial assets	60(f)	**24,219**	34,220
Debt investments at amortised cost	23(b)	**921,228**	916,012
Debt investments at fair value through other comprehensive income	23(c)	**478,856**	421,070
Equity investments designated at fair value through other comprehensive income	23(d)	**6,077**	4,015
Interest in joint ventures	25	**10,324**	8,622
Interest in associates	26	**460**	249
Investment properties	27	**1,925**	2,061
Property and equipment	28	**66,408**	56,206
Right-of-use assets	29(a)	**20,000**	N/A
Intangible assets	30	**4,575**	9,150
Goodwill	31	**9,954**	9,954
Deferred tax assets	32	**65,151**	58,374
Other assets	33	**37,990**	32,568
Total assets		**7,417,240**	6,745,729

The notes form part of these consolidated financial statements.

	Notes	2019	2018
Liabilities			
Borrowing from central banks		**359,175**	405,314
Deposits from banks and other financial institutions	34	**555,581**	470,826
Placements from banks and other financial institutions	35	**165,921**	203,950
Financial liabilities at fair value through profit or loss	36	**43,434**	44,144
Derivative financial liabilities	60(f)	**23,200**	36,570
Amounts sold under repurchase agreements	37	**63,233**	78,141
Deposits from customers	38	**4,874,981**	4,427,566
Salaries and welfare payable	39(a)	**11,638**	8,475
Tax payable	40	**19,069**	20,411
Contract liabilities	41	**6,488**	5,607
Lease liabilities	29(b)	**14,379**	N/A
Provisions	42	**6,109**	5,665
Debt securities issued	43	**578,191**	424,926
Deferred tax liabilities	32	**956**	1,211
Other liabilities	44	**77,178**	69,318
Total liabilities		**6,799,533**	6,202,124
Equity			
Share capital	45	**25,220**	25,220
Other equity instruments		**34,065**	34,065
– Preference shares	46	**34,065**	34,065
Capital reserve	47	**67,523**	67,523
Investment revaluation reserve	48	**8,919**	5,532
Hedging reserve	49	**(39)**	63
Surplus reserve	50	**62,291**	53,682
Regulatory general reserve	51	**90,151**	78,542
Retained profits		**291,346**	250,654
Proposed profit appropriations	52(b)	**30,264**	23,707
Exchange reserve	53	**1,561**	1,130
Total equity attributable to shareholders of the Bank		**611,301**	540,118
Non-controlling interests		**6,406**	3,487
– Non-controlling interest		**2,427**	2,329
– Perpetual debt capital	62(a)	**3,979**	1,158
Total equity		**617,707**	543,605
Total equity and liabilities		**7,417,240**	6,745,729

The notes form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 20 March 2020.

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

(Expressed in millions of Renminbi unless otherwise stated)

		2019													
		Total equity attributable to equity shareholders of the Bank											Non-controlling interests		
	Notes	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 debt capital	Non-controlling interests	Total
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 year		–	–	–	3,387	(102)	8,609	11,609	40,692	6,557	431	71,183	2,821	98	74,102
(a) Net profit for the year		–	–	–	–	–	–	–	92,867	–	–	92,867	153	403	93,423
(b) Other comprehensive income for the year	16	–	–	–	3,364	(102)	–	–	–	–	431	3,693	60	6	3,759
Total comprehensive income for the year		–	–	–	3,364	(102)	–	–	92,867	–	431	96,560	213	409	97,182
(c) Capital contribution from equity holders		–	–	–	–	–	–	–	–	–	–	–	2,761	(168)	2,593
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	2	2
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(170)	(170)
(iii) Issue of perpetual debt capital		–	–	–	–	–	–	–	–	–	–	–	2,761	–	2,761
(d) Profit appropriations		–	–	–	–	–	8,609	11,609	(52,152)	6,557	–	(25,377)	(153)	(143)	(25,673)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	8,609	–	(8,609)	–	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	51	–	–	–	–	–	–	11,609	(11,609)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2018		–	–	–	–	–	–	–	–	(23,707)	–	(23,707)	–	(143)	(23,850)
(iv) Distribution to perpetual capital instruments	62	–	–	–	–	–	–	–	–	–	–	–	(153)	–	(153)
(v) Proposed dividends for the year 2019		–	–	–	–	–	–	–	(30,264)	30,264	–	–	–	–	–
(vi) Dividends paid for preference shares		–	–	–	–	–	–	–	(1,670)	–	–	(1,670)	–	–	(1,670)
(e) Transfers within equity upon disposal of equity Instruments designated at FVTOCI		–	–	–	23	–	–	–	(23)	–	–	–	–	–	–
At 31 December 2019		25,220	34,065	67,523	8,919	(39)	62,291	90,151	291,346	30,264	1,561	611,301	3,979	2,427	617,707

The notes form part of these consolidated financial statements.

		2018													
		Total equity attributable to equity shareholders of the Bank											Non-controlling interests		
	Notes	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 debt capital	Non-controlling interests	Total
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 year		–	–	–	6,976	149	7,523	7,621	40,046	2,522	1,973	66,810	(12)	317	67,115
(a) Net profit for the year		–	–	–	–	–	–	–	80,560	–	–	80,560	64	195	80,819
(b) Other comprehensive income for the year	16	–	–	–	6,972	149	–	–	–	–	1,973	9,094	(12)	35	9,117
Total comprehensive income for the year		–	–	–	6,972	149	–	–	80,560	–	1,973	89,654	52	230	89,936
(c) Capital contribution from equity holders		–	–	–	–	–	–	–	–	–	–	–	–	91	91
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	125	125
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(34)	(34)
(d) Profit appropriations		–	–	–	–	–	7,523	7,621	(40,510)	2,522	–	(22,844)	(64)	(4)	(22,912)
(i) Appropriations to statutory surplus reserve	50	–	–	–	–	–	7,523	–	(7,523)	–	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	51	–	–	–	–	–	–	7,621	(7,621)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2017		–	–	–	–	–	–	–	–	(21,185)	–	(21,185)	–	(4)	(21,189)
(iv) Distribution to perpetual capital instruments	62	–	–	–	–	–	–	–	–	–	–	–	(64)	–	(64)
(v) Proposed dividends for the year 2018		–	–	–	–	–	–	–	(23,707)	23,707	–	–	–	–	–
(vi) Dividends paid for preference shares		–	–	–	–	–	–	–	(1,659)	–	–	(1,659)	–	–	(1,659)
(e) Transfers within equity upon disposal of equity Instruments designated at FVTOCI		–	–	–	4	–	–	–	(4)	–	–	–	–	–	–
At 31 December 2018		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

The notes form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in millions of Renminbi unless otherwise stated)

	2019	2018
Cash flows from operating activities		
Profit before tax	117,132	106,497
Adjustments for:		
– Impairment losses on loans and advances	54,214	59,252
– Impairment losses on investments and other assets	6,945	1,585
– Unwind of discount	(286)	(307)
– Depreciation of properties and equipment and investment properties	6,379	5,270
– Depreciation of right-of-use assets	4,364	N/A
– Amortisation of other assets	1,063	1,005
– Net gain on debt securities and equity investments	(867)	(200)
– Interest income on investments	(48,902)	(48,267)
– Interest expense on issued debt securities	17,631	14,530
– Share of profits of associates	(37)	(37)
– Share of profits of joint ventures	(1,686)	(1,272)
– Net gains on disposal of properties and equipment and other assets	(382)	(196)
– Interest expense on lease liabilities	557	N/A
Changes in:		
Balances with central banks	(36,397)	91,162
Loans and advances to customers	(509,737)	(375,451)
Other assets	(5,200)	(14,437)
Deposits from customers	443,748	336,329
Deposits and placements from banks and other financial institutions	32,183	(87,461)
Balances and placements with banks and other financial institutions with original maturity over 3 months	5,917	(21,311)
Borrowing from central banks	(43,625)	(14,693)
Other liabilities	(4,593)	(48,130)
Cash generated from operating activities before tax	38,421	3,868
Income tax paid	(33,989)	(39,589)
Net cash generated from (used in) operating activities	4,432	(35,721)
Investing activities		
Payment for the purchase of investments	(903,854)	(994,234)
Proceeds from the disposal of investments	802,970	980,939
Investments and net gains received from investments	49,221	48,692
Payment for the acquisition of subsidiaries, associates, joint venture	(46)	(2,154)
Payment for the purchase of properties and equipment and other assets	(23,964)	(17,492)
Proceeds from the disposal of properties and equipment and other assets	5,063	2,173
Proceeds from the disposal of subsidiaries, associates, joint venture	39	9
Proceeds from other investing activities	–	1,785
Net cash (used in) generated from investing activities	(70,571)	19,718

The notes form part of these consolidated financial statements.

	Note	2019	2018
Financing activities			
Proceeds from the issue of debt securities		**70,607**	73,029
Proceeds from the issue of negotiable interbank certificates of deposits		**455,128**	407,328
Proceeds from the issue of certificates of deposits		**27,631**	32,300
Proceeds from the issue of perpetual debt capital		**2,761**	–
Proceeds from non-controlling shareholders		**–**	125
Proceeds from other financing activities		**6,509**	2,921
Repayment of debt securities		**(22,363)**	(15,590)
Repayment of negotiable interbank certificates of deposits		**(351,235)**	(342,201)
Repayment of certificates of deposit		**(30,921)**	(28,389)
Repayment of lease liabilities		**(4,302)**	N/A
Payment for acquiring additional non-controlling equity		**(170)**	(34)
Dividends paid		**(25,673)**	(22,912)
Interest paid on financing activities		**(17,337)**	(11,813)
Payment for other financing activities		**(185)**	(431)
Net cash generated from financing activities		**110,450**	94,333
Net increase in cash and cash equivalents		**44,311**	78,330
Cash and cash equivalents as at 1 January		**543,683**	460,425
Effect of foreign exchange rate changes		**1,681**	4,928
Cash and cash equivalents as at 31 December	55(a)	**589,675**	543,683
Cash flows from operating activities include:			
Interest received		**243,249**	214,843
Interest paid		**101,258**	95,349

The notes form part of these consolidated financial statements.

Notes to the Financial Consolidated Statements

For the year ended December 31, 2019

(Expressed in millions of Renminbi unless otherwise stated)

1. Organisation and principal activities

(1) Organisation

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").

As at 31 December 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.

(2) Principal activities

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

2. Basis of preparation of consolidated financial statements

(1) Statement of compliance and basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKEx.

(2) Basis of measurement

Unless otherwise stated, the consolidated financial statements are presented in Renminbi ("RMB"), which is also the Bank's functional currency, rounded to the nearest million.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 *Lease*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

2. Basis of preparation of consolidated financial statements *(continued)*

(2) Basis of measurement *(continued)*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the future period are discussed in Note 5.

3. Application of new and amendments to IFRSs

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 other new and amendments to IFRSs in the current year has no material impact on the Group's consolidated financial statements.

(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 year. IFRS 16 superseded IAS 17 Leases ("IAS 17") and the related interpretations.

The Group applied the following accounting policies in accordance with the transition provisions 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 standard 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.

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.

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current year applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. 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.

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
Irrevocable operating lease commitments disclosed as at 31 December 2018 (value added tax included)	14,548
Less: Value added tax	(609)
Irrevocable 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

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current year applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 16 Leases *(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 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

Effective from 1 January 2019, leasehold lands are measured under IFRS 16 at cost less any accumulated amortisation and any impairment losses.

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.

3. Application of new and amendments to IFRSs *(continued)*

New and revised IFRSs effective in the current year applied by the Group *(continued)*

(1) Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

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 Revenue from Contracts with Customers ("IFRS 15") as a sale.

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

		Effective for annual period beginning on or after
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	a date to be determined
Amendments to IFRS 3	Definition of a Business	Note
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2022

Note: Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The above new and amendments to IFRSs have not been adopted in advance in the consolidated financial statements of this year. The Group anticipates that the application of all new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. Principal accounting policies

(1) Subsidiaries and non-controlling interests and business combination

Financial statements include financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Non-controlling interests in the results of the Group are presented in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see Note 4(2)) or, an associate (see Note 4(3)).

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 – Income Taxes and IAS 19 – Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

4. Principal accounting policies *(continued)*

(2) Joint ventures

A joint venture is an arrangement in which the Group has joint control, where by the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When judge whether there is a joint control, the Group usually considers the following cases:

– whether any party within the joint arrangement cannot control the relevant activities of the joint ventures;

– whether the decisions about the joint ventures' relevant activities require the unanimous consent of the parties sharing control.

The consolidated statement of profit or loss includes the Group's share of the results of joint ventures for the year and the consolidated statement of financial position includes the Group's share of the net assets of the joint ventures.

Interests in the joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the joint ventures, until the date on which significant influence or joint control ceases.

Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the joint ventures' net assets. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognized immediately in profit or loss in the period in which investment is acquired. The consolidated statement of profit or loss includes post-tax results of the joint ventures for the year, including any impairment loss on goodwill relating to the investment in the joint ventures recognised for the year (see Notes 4(4) and 4(11)).

When the Group's share of losses exceeds its interest in the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures. For these purposes, the Group's interest in the joint ventures is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture and no significant impact occurs, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)).

4. Principal accounting policies *(continued)*

(3) Associates

Associate is an entity in which the Group has significant influence, but not control, or joint control, including participation in the financial and operating policy decisions.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

When judging whether there is a significant influence, the Group usually considers the following cases:

– representation on the Board of Directors or equivalent governing body of the investee;

– participation in policy-making processes;

– material transactions between the entity and its investee.

Investments in associates are accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any).

Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognized immediately in profit or loss in the period in which investment is acquired. The consolidated statement of profit or loss includes the Group's post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see Notes 4(4) and 4(11)).

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For these purposes, the Group's interest in the associates is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 4(5)).

(4) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest based on the fair value of net assets acquired in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU") or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 4(11)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

4. Principal accounting policies *(continued)*

(5) Financial instruments

Initial recognition

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

At initial recognition, financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Classification and measurement of financial assets

The Group classifies its financial assets into the following measurement categories at initial recognition: financial assets at amortised cost; financial assets fair value through other comprehensive income; and financial assets at fair value through profit or loss.

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

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

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

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

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial assets *(continued)*

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

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

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

Equity instruments designated as at FVTOCI

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

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other net income" line item in profit or loss.

Financial assets at FVTPL

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

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Impairment under ECL model

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets which are subject to impairment under IFRS 9 (including financial assets at amortised cost, debt instruments assets at fair value through other comprehensive income), leases receivable, loan commitments and financial guarantee contracts etc. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

For the above financial instruments that apply the ECL model, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by the Group to determine whether to recognize lifetime ECL. When the credit risk of these financial instruments does not increase significantly after the initial recognition, the Group makes provision for credit losses according 12-month ECL; in the event of a significant increase in credit risk, the group makes provision for the credit losses in accordance with the ECL for the entire duration.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The assessment of whether the credit risk has increased significantly are detailed in Note 60(a).

Credit-impaired financial assets

The Group defines whether there is credit impairment based on the internal evaluation results of the credit risk management system for relevant financial assets. The Group considers that financial assets have been credit impaired when its 5-tier loan classification is substandard, doubtful or loss or is more than 90 days overdue.

Measurement and recognition of ECL

ECL is measured based on the probability of default, loss given default and the exposure at default. Measurement of ECL are detailed in Note 60(a).

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

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

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

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

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

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

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Classification and measurement of financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including borrowing from central banks, deposits from banks and other financial institutions, placements from banks and other financial institutions, amounts sold under repurchase agreements, deposits from customers are subsequently measured at amortised cost, using the effective interest method.

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedge. The Group documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge, at the inception of a hedging relationship,. The Group also requires documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Hedge accounting *(continued)*

Cash flow hedge

The effective portions of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognised in other comprehensive income and accumulated separately in hedging reserve. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss.

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from hedging reserve to the consolidated statement of profit or loss in the same periods during which the hedged cash flow affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in hedging reserve until the forecast transaction is ultimately recognised in the consolidated statements of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss is immediately reclassified to the consolidated statement of profit or loss.

Hedge effectiveness testing

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

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

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

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

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial instruments designated at fair value and do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss.

Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Balances and placements with banks and other financial institutions

Banks represent other banks approved by the People's Bank of China ("PBOC") and other authorities. Other financial institutions represent finance companies, insurance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking and Insurance Regulatory Commission (the "CBIRC") and securities firms and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Balances and placements with banks and other financial institutions are accounted for as loans and receivables.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

Resale and repurchase agreements

Amounts for purchase of financial assets under resale agreements are accounted for under "amounts held under resale agreements". Amounts from sale of financial assets under repurchase agreements are accounted for under "amounts sold under repurchase agreements".

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense (as appropriate).

Investments

Equity investments are accounted for as financial assets at fair value through profit or loss or equity investments designated at fair value through other comprehensive income. Debt investments are classified as financial assets at fair value through profit or loss, debt investments at amortised cost, debt investments at fair value through other comprehensive income in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

Loans and advances to customers

Loans and advances directly granted by the Group to customers, participation in syndicated loans and finance leases receivables are accounted for as loans and advances to customers.

Loans and advances to customers are classified as loans and advances customers at fair value through profit or loss (loans and advances customers at FVTPL), loans and advances customers at amortised cost, loans and advances customers at fair value through other comprehensive income (loans and advances customers at FVTOCI) in accordance with the entity's business model, contractual cash flow characteristics and the fair value option.

Derivative financial instruments

The Group's derivative financial instruments mainly include forward, foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Group enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of profit or loss other than cash flow hedge, for cash flow hedge, the gains and losses arising from the effective hedging part recognised in other comprehensive income.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Specific items *(continued)*

Equity instruments

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Group for repurchasing self-issued equity instruments are deducted from shareholders' equity.

Perpetual debt capitals: At initial recognition, the Group classifies the perpetual debt capitals issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Perpetual debt capitals issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of interests during the instruments' duration is treated as profit appropriation. When the perpetual debt capitals are redeemed, the redemption price is charged to equity.

Preference shares: At initial recognition, the Group classifies the preference shares issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

The Group classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

Derecognition of financial instruments

(a) Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset; or

– has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. Principal accounting policies *(continued)*

(5) Financial instruments *(continued)*

Derecognition of financial instruments *(continued)*

(b) Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests).

When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration collected from third parties are recorded as a financial liability.

When the securitisation results in derecognisation or partial derecognisation of financial assets, the Group allocates the carrying amount of the transferred financial assets between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation, which is the difference between the consideration received and the allocated carrying amount of the financial assets derecognised, are recorded in "other net income". The retained interests continue to be recognised on the same basis before the securitisation.

When applying the policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on the transferred financial assets and the degree of control exercised by the Group over the transferred financial assets:

– when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;

– when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

– when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

(c) Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(d) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

4. Principal accounting policies *(continued)*

(6) Property, equipment, investment property and depreciation

Property, equipment and investment property, are stated at cost or deemed cost less accumulated depreciations and impairment losses. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of property, equipment and investment property over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Motor vehicles and others	3 – 5 years
Leasehold improvements (leasing property)	3 years
Leasehold improvements (self-owned property)	the estimated useful lives

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property or other asset when the asset is ready for its intended use. No depreciation is provided for construction in progress.

Subsequent expenditure relating to a property, equipment and investment property is capitalised only when it is probable that future economic benefits associated with the property and equipment will flow to the Group. All other expenditure is recognised in the consolidated statement of profit or loss as an expense as incurred.

Profits or losses on disposal of property, equipment and investment property are determined as the difference between the net disposal proceeds and the carrying amount of the property, equipment, investment property and are accounted for in the consolidated statement of profit or loss as they arise.

(7) Repossessed assets

In the recovery of impaired loans and receivables, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrowers, repossessed assets except the equity instrument are reported in "other assets".

Repossessed assets of equity instruments are detailed in note 4(5).

4. Principal accounting policies *(continued)*

(8) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see Note 4(11)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at the end of reporting period.

The amortization period of intangible assets is as follow:

Land use right	Software and Others	Core deposit
30~50 years	2~20 years	28 years

Both the periods and method of amortisation are reviewed annually.

(9) Leases

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

(a) 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.

(b) 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.

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessee *(continued)*

(c) 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 and impairment losses, adjusted for any remeasurement of the lease liability. The Group recognises the depreciation of right-of-use assets as an operating expense on a straight-line basis and calculate the depreciation charge into the operating expenses of the consolidated statement of profit or loss. Right-of-use assets are depreciated 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 over the useful life of the underlying assets.

Accounting policies for any identified right-of-use asset impairment loss are disclosed in note 4(11).

(d) 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.

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessee *(continued)*

(e) 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.

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. Accounting policies for impairment losses are disclosed in note 4(5).

4. Principal accounting policies *(continued)*

(9) Leases *(continued)*

As a lessor *(continued)*

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 to allocate the consideration under the contract to each component. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

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.

(10) Insurance contracts

Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policy holders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period.

The Group has considered the impact of time value in the liability calculation for long-term life insurance. The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

4. Principal accounting policies *(continued)*

(11) Impairment on tangible, intangible assets other than impairment under ECL model

The carrying amount of tangible and intangible assets other than impairment under ECL model is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount, including property and equipment, right-of-use assets, intangible assets, investment properties, interest in joint ventures, interest in associates, good will and other non-current assets. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of profit or loss. The recoverable amount of an asset is the greater of its fair value less disposal expense and present value of future expected cash flow. In assessing value in use, the estimated future cash flows are discounted to their present values.

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value net disposal expense and the present value of future cash flow. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(12) Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated statement of profit or loss in the period in which they arise.

4. Principal accounting policies *(continued)*

(13) Financial guarantee issued, provisions and contingent liabilities

Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The provision of financial guarantees issued is confirmed in the statement of financial position in accordance with note 4(5).

Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is highly probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(14) Income recognition

Revenue is the inflow of economic benefits that the Group has formed in its daily activities that will result in an increase in shareholders' equity and have nothing to do with the capital invested by shareholders.

Net Interest income

Interest income and expense for all financial instruments except for those classified as at FVTPL are recognised in "Interest income" and "Interest expense" in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, which is recognized in "Other net income".

Dividend income

Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.

Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

Rental income

Income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term.

Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income

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

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

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

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

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

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

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

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

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

4. Principal accounting policies *(continued)*

(14) Income recognition *(continued)*

Fee and commission income *(continued)*

If a performance obligation is not satisfied over time, it is satisfied at a point in time. To determine the point in time at which a customer obtains control of a promised service, the following indicators of the transfer of control should also be considered; these include, but are not limited to:

- The Group has a present right to payment for the services;
- The Group has transferred physical possession of the service;
- The customer has the significant risks and rewards of ownership of the service;
- The customer has accepted the services.

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

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

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

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

(15) Taxation

Current income tax and movements in deferred tax balances are recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates of expected returns of the assets or the repayment of the liabilities. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

The Group shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied: the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

4. Principal accounting policies *(continued)*

(15) Taxation *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(16) Foreign currencies translations

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

Exchange differences on transactions entered into in order to the effective portion of the hedge certain foreign currency risks.

Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange reserve (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in exchange reserve in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

4. Principal accounting policies *(continued)*

(17) Employee benefits

Salaries and staff welfare

Salaries, bonuses and other benefits are accrued in the period in which the associated services are rendered by employees.

Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of profit or loss as incurred.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds form the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in the consolidated statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Share-based payment

The Group offers H share appreciation rights to its employee, namely H Share Appreciation Rights Scheme for the Senior Management ("the Scheme"), the Scheme is settle by cash. Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share. The Group recognises the services for the period as related costs or expenses, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting at the end of each reporting period within the vesting period. Until the liability is settled, the Group remeasures the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of the H share appreciation rights is using Black-Scholes model, taking into account the terms and condition upon which the H share appreciation rights were granted.

4. Principal accounting policies *(continued)*

(18) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly, indirectly or jointly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(19) Segmental reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they meet most of these criteria.

(20) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated statement of financial position as the risks and rewards of the assets reside with the customers. The Group only charges a relevant commission.

(21) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

5. Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on the assets and liabilities at the end of the reporting period. These estimates involve assumptions about cash flows and the discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to the assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(1) Control over structured entity

Where the Group acts as asset manager of structured entities, the Group makes judgment on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from interests that it holds in the structured entities.

(2) Classification of financial assets

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

(3) De-recognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full de-recognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

5. Significant accounting estimates and judgements *(continued)*

(3) De-recognition of financial assets transferred *(continued)*

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties.
- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgment is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that effect the outcomes of Group's assessment on the extent that risks and rewards are transferred.

(4) Impairment under ECL model

- Significant increase of credit risk: ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 60(a) for more details.
- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 60(a) for details of the characterics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.
- Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 60(a) for more details on ECL and Note 60(g) for more details on fair value measurement.
- Forward-looking information: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 60(a) for more details.
- Probability of Default ("PD"): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Refer to Note 60(a) for more details.
- Loss Given Default ("LGD"): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Refer to Note 60(a) for more details.

5. Significant accounting estimates and judgements *(continued)*

(5) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair value for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. If the fair value is measured using third party information such as brokerage quotes or pricing services, the valuation team will evaluate the evidence obtained from third parties to support the conclusion.

(6) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(7) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the groups to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from groups and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

6. Interest income

	2019	2018
Loans and advances to customers	**221,979**	196,370
– Corporate loans	**78,914**	73,954
– Retail loans	**134,763**	113,698
– Discounted bills	**8,302**	8,718
Balances with central banks	**7,759**	7,961
Balances with banks and other financial institutions	**1,882**	1,980
Placements with banks and other financial institutions	**8,170**	8,802
Amounts held under resale agreements	**4,302**	7,531
Investments	**48,902**	48,267
– Debt investments at FVTOCI	**13,821**	12,256
– Debt investments at amortised cost	**35,081**	36,011
Total	**292,994**	270,911

Note: The Group recognized RMB 286 million interest income on impaired loans and advances to customers (2018: RMB 307 million), RMB 5 million interest income on impaired debt securities investments (2018: nil), and RMB 9,577 million on loans and advances to customers at fair value through other comprehensive income (2018: RMB 9,462 million).

7. Interest expense

	2019	2018
Deposits from customers	**73,430**	61,987
Borrowing from central banks	**9,207**	10,982
Deposits from banks and other financial institutions	**10,269**	12,166
Placements from banks and other financial institutions	**6,406**	7,294
Amounts sold under repurchase agreements	**2,404**	3,568
Debt securities issued	**17,631**	14,530
Lease liabilities	**557**	N/A
Total	**119,904**	110,527

8. Fee and commission income

	2019	2018
Bank cards fees	**19,551**	16,727
Remittance and settlement fees	**11,492**	10,267
Agency services fees	**13,681**	13,091
Commissions from credit commitment and lending business	**6,310**	6,807
Commissions on trust and fiduciary activities	**23,560**	23,370
Others	**4,453**	2,784
Total	**79,047**	73,046

9. Other net income

	2019	2018
Profit (loss) from fair value change	**384**	1,091
– financial instruments at fair value through profit or loss	**1,112**	1,803
– derivatives instruments	**(255)**	52
– precious metals	**(473)**	(764)
Investment income	**14,048**	11,327
– financial instruments at FVTPL	**11,030**	9,734
– gain on disposal of financial assets at amortised cost	**146**	(350)
– gain on disposal of debt instruments at FVTOCI	**2,457**	1,816
– *of which: gain on disposal of bills*	**1,941**	1,742
– dividend income from equity investments designated at FVTOCI	**170**	154
– others	**245**	(27)
Foreign exchange gain	**3,259**	3,538
Other income	**4,870**	3,889
– rental income	**4,488**	3,555
– insurance income	**382**	334
Others	**921**	426
Total	**23,482**	20,271

10. Operating expenses

	2019	2018
Staff costs		
– Salaries and bonuses (note (i))	**37,267**	33,077
– Social insurance and corporate supplemental insurance	**6,470**	5,777
– Others	**7,702**	7,171
Subtotal	**51,439**	46,025
Tax and surcharges	**2,348**	2,132
Depreciation of property, equipment and investment properties	**6,379**	5,270
Amortization of intangible assets	**1,014**	983
Depreciation of right-of-use assets	**4,364**	N/A
Short-term leases expenses and leases of low-value assets expenses	**302**	N/A
Rental expenses	**N/A**	4,242
Charge for insurance claims	**245**	244
Other general and administrative expenses (note (ii))	**25,406**	22,214
Total	**91,497**	81,110

Notes:

(i) Performance bonus is included in the salaries and bonuses, the details of which are disclosed in Note 39(a).

(ii) Auditors' remuneration amounted to RMB31 million for the year ended 31 December 2019 (2018: RMB30 million), is included in other general and administrative expenses.

11. Directors' and supervisors' emoluments

The emoluments of the Directors and Supervisors during the year are as follows:

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,620	–	38	4,658
Liu Jianjun (ii)	–	3,360	–	38	3,398
Wang Liang (ii)	–	3,360	–	38	3,398
Subtotal	–	11,340	–	114	11,454

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.

Non-executive directors					
Li Jianhong	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Zhou Song	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Su Min	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Luo Sheng (iii)	–	–	–	–	–
Subtotal	–	–	–	–	–

The non-executive directors' emoluments shown above were for their services as directors of the Bank.

Independent non-executive directors and supervisors					
Liang Jinsong	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Wong See Hong	500	–	–	–	500
Li Menggang	500	–	–	–	500
Liu Qiao	500	–	–	–	500
Tian Hongqi (iv)	203	–	–	–	203
Liu Yuan	–	3,780	–	38	3,818
Peng Bihong (v)	–	–	–	–	–
Wen Jianguo	–	–	–	–	–
Wu Heng	–	–	–	–	–
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Xu Zhengjun (vi)	200	–	–	–	200
Wang Wanqing	–	2,868	–	38	2,906
Liu Xiaoming (vii)	–	1,395	–	23	1,418
Subtotal	3,703	8,043	–	99	11,845

The independent non-executive directors' and supervisors' emoluments shown above were for their services and employment as directors or supervisors of the Bank.

11. Directors' and supervisors' emoluments *(continued)*

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Li Hao (viii)	–	1,400	–	12	1,412
Sun Yueying (ix)	–	–	–	–	–
Pan Chengwei (iv)	297	–	–	–	297
Fu Junyuan (x)	–	–	–	–	–
Jin Qingjun (xi)	200	–	–	–	200
Huang Dan (xii)	–	718	–	18	736
Subtotal	497	2,118	–	30	2,645

The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.

Total	4,200	21,501	–	243	25,944

Notes:

(i) The total remuneration before tax for the full-time directors, supervisors and executive officers of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.

(ii) In June 2019, Mr. Liu Jianjun and Mr. Wang Liang were newly elected as the executive directors of the Bank, and their qualifications for the post of directors were approved by the China Banking and Insurance Regulatory Commission in August 2019.

(iii) In June 2019, Mr. Luo Sheng was elected as a non-executive director of the Bank, and his qualification for the post of director has been approved by the CBRC in July 2019.

(iv) Mr. Tian Hongqi was newly elected as an independent non-executive director of the Bank. His qualification for the position of independent director has been approved by the China Banking and Insurance Regulatory Commission in August 2019. At the same time, Mr. Pan Chengwei will no longer be an independent non-executive director of the Bank at the end of his term of office.

(v) In June 2019, according to the relevant resolutions of the 2018 general meeting of shareholders of the Bank, Mr. Peng Bihong was newly elected as the shareholder supervisor of the Bank.

(vi) In June 2019, according to the relevant resolutions of the 2018 general meeting of shareholders of the Bank, Mr. Xu Zhengjun was newly elected as the external supervisor of the Bank, with the term of office effective from June 27, 2019.

(vii) In June 2019, according to the election results of the Bank's staff congress, Mr. Liu Xiaoming was newly elected as the Bank's staff supervisor, with the term of office effective from June 27, 2019.

(viii) In April 2019, Mr. Li Hao retired and resigned as the executive director of the Bank.

(ix) In June 2019, Ms. Sun Yueying ceased to be a non-executive director of the Bank after the end of her term of office.

(x) In February 2019, Mr. Fu Junyuan resigned as the shareholder supervisor of the Bank for work reasons.

(xi) In June 2019, due to the expiration of his term of office, Mr. Jin Qingjun will no longer serve as the external supervisor of the Bank after the end of the 2018 general meeting of shareholders.

(xii) In June 2019, due to the expiration of her term of office, Ms. Huang Dan will no longer serve as the employee supervisor of the Bank after the end of the 2018 general meeting of shareholders.

(xiii) As at 31 December 2019, the Group has offered 10 phases of H share appreciation rights scheme to its senior management ("the Scheme"). Details of the Scheme are set out in Note 39 (a)(iii).

11. Directors' and supervisors' emoluments *(continued)*

	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,620	–	70	4,690
Li Hao	–	4,200	–	90	4,290
Subtotal	–	8,820	–	160	8,980

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.

Non-executive directors					
Li Jianhong	–	–	–	–	–
Sun Yueying	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Zhou Song (ii)	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Su Min	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Subtotal	–	–	–	–	–

The non-executive directors' emoluments shown above were for their services as directors of the Bank.

Independent non-executive directors and supervisors					
Liang Jinsong	500	–	–	–	500
Pan Chengwei	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Wong See Hong	500	–	–	–	500
Li Menggang (iii)	42	–	–	–	42
Liu Qiao (iii)	42	–	–	–	42
Liu Yuan	–	3,780	–	90	3,870
Fu Junyuan (iv)	–	–	–	–	–
Wen Jianguo	–	–	–	–	–
Wu Heng	–	–	–	–	–
Jin Qingjun	400	–	–	–	400
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Wang Wanqing (v)	–	1,723	–	39	1,762
Huang Dan	–	2,152	–	93	2,245
Subtotal	3,284	7,655	–	222	11,161

The independent non-executive directors' and supervisors' emoluments shown above were for their services and employment as directors or supervisors of the Bank.

11. Directors' and supervisors' emoluments *(continued)*

	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Li Xiaopeng (vi)	–	–	–	–	–
Wong Kwai Lam (vii)	500	–	–	–	500
Pan Yingli (vii)	500	–	–	–	500
Xu Lizhong (v)	–	1,200	–	63	1,263
Subtotal	1,000	1,200	–	63	2,263
The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Total	4,284	17,675	–	445	22,404

Notes:

(i) The total remuneration before tax for the full-time directors, supervisors and executive officers of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.

(ii) During the reporting period, the appointment qualification of Mr.Zhou Song was approved by the China Banking and Insurance Regulatory Commission in October 2018.

(iii) During the reporting period, the appointment qualification of Mr.Li Menggang and Liu Qiao were approved by the China Banking and Insurance Regulatory Commission in November 2018.

(iv) Mr. Fu Junyuan resigned as a shareholder supervisor of the Bank and a member of the Nomination Committee of the Board of Supervisors for work reasons, effective since February 28, 2019.

(v) In July 2018, Mr. Xu Lizhong, the former employee supervisor, submitted his resignation to the Supervisory Committee of the Bank for work reasons. According to the results of the employee representative meeting held on July 18, 2018, Mr. Wang Wanqing was newly elected as the employee supervisor of the tenth session of the Supervisory Committee of the Bank, and Mr. Xu Lizhong no longer served as employee supervisor of the Bank.

(vi) In January 2018, Mr. Li Xiaopeng resigned as the Bank's vice chairman and non-executive director.

(vii) In November 2018, Mr. Wong Kwai Lam and Mrs. Pan Yingli resigned as the Bank's independent non-executive director.

(viii) As at 31 December 2018, the Group has offered 10 phases of H share appreciation rights scheme to its senior management ("the Scheme"). Details of the Scheme are set out in Note 39 (a)(iii).

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

	2019	2018
HKD		
0 – 500,000	**15**	16
500,001 – 1,000,000	**5**	4
1,500,001 – 2,000,000	**1**	–
2,000,001 – 2,500,000	**–**	1
2,500,001 – 3,000,000	**–**	1
3,000,001 – 3,500,000	**1**	–
3,500,001 – 4,000,000	**2**	–
4,000,001 – 4,500,000	**1**	1
4,500,001 – 5,000,000	**–**	1
5,000,001 – 5,500,000	**1**	1
Total	**26**	25

During the year ended 31 December 2019, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 December 2019, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

12. Individuals with highest emoluments

Of the five individuals with the highest emoluments for the year ended 31 December 2019, 4 (2018: 3) are directors or supervisors of the Bank whose emoluments are included in Note 11 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	21,840	22,680
Discretionary bonuses (Note 11(i))	–	–
Contributions to defined contribution retirement schemes	228	520
Total	22,068	23,200

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

	2019	2018
HKD		
3,500,001 – 4,000,000	4	3
4,000,001 – 4,500,000	1	1
4,500,001 – 5,000,000	–	1
5,000,001 – 5,500,000	1	1

During the year ended 31 December 2019, the five highest paid individuals include six persons in total as three of them are with the same emoluments and being the forth highest paid individuals. During the year ended 31 December 2018, the five highest paid individuals include six persons in total as three of them are with the same emoluments and being the forth highest paid individuals.

13. Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

	2019	2018
Aggregate amount of relevant loans made by the Group outstanding at year end	66	47
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	71	54

14. Expected credit losses

	2019	2018
Loans and advances to customers (Note 22(c))	**54,214**	59,252
Amounts due from banks and other financial institutions	**(208)**	(368)
Investments		
– Debt investments at amortised cost (Note 23(b))	**5,803**	787
– Debt investments at FVTOCI (Note 23(c))	**678**	389
Expected credit losses relating to financial guarantees and loan commitments	**545**	374
Others	**34**	395
Total	**61,066**	60,829

15. Income tax

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

	2019	2018
Current income tax expense		
– Mainland China	**30,296**	32,744
– Hong Kong	**1,243**	1,017
– Overseas	**130**	216
Subtotal	**31,669**	33,977
Deferred taxation	**(7,960)**	(8,299)
Total	**23,709**	25,678

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

	2019	2018
Profit before taxation	**117,132**	106,497
Tax at the PRC statutory income tax rate of 25% (2018: 25%)	**29,283**	26,624
Tax effects of the following items:		
– Effects of non-deductible expenses	**1,298**	1,574
– Effects of non-taxable income	**(7,738)**	(5,917)
– Effects of different applicable rates in other jurisdictions	**(417)**	(210)
– Transfer out of previously recognised deferred tax assets	**1,320**	3,570
– Others	**(37)**	37
Income tax expense	**23,709**	25,678

Notes:

(i) The applicable income tax rate for the Group's operations in Mainland China is 25% during 2019 (2018: 25%).

(ii) Taxation for Hong Kong and overseas operations are charged at the applicable rates of tax prevailing in relevant regions.

16. Other comprehensive income

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

	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						
– Net fair value gain on debt instruments measured at fair value through other comprehensive income	**2,189**	**(549)**	**1,640**	8,494	(2,251)	6,243
– Net changes in expected credit losses of debt instruments measured at fair value through other comprehensive income	**799**	**(173)**	**626**	490	6	496
– Net movement in cash flow hedge reserve	**(115)**	**13**	**(102)**	180	(31)	149
– Equity-accounted investees-share of other comprehensive income	**368**	**–**	**368**	(36)	–	(36)
– Exchange difference on translation of financial statements of foreign operations	**497**	**–**	**497**	1,995	–	1,995
Items that will not be reclassified subsequently to profit or loss						
– Fair value gain on equity instruments measured at fair value through other comprehensive income	**991**	**(262)**	**729**	439	(107)	332
– Remeasurement of defined benefit scheme redesigned through reserve	**1**	**–**	**1**	(74)	12	(62)
Other comprehensive income	**4,730**	**(971)**	**3,759**	11,488	(2,371)	9,117

16. Other comprehensive income *(continued)*

(b) Movements relating to components of other comprehensive income are as follows:

	2019	2018
Reserve changes in debt instruments at FVTOCI		
Changes in fair value recognised during the year	**3,483**	7,605
Reclassification adjustments for amounts transferred to profit or loss upon disposal	**(1,843)**	(1,362)
Net movement in the debt instrument revaluation reserve during the year recognised in other comprehensive income	**1,640**	6,243
Changes in expected credit losses in financial assets at FVTOCI		
Changes in expected credit losses recognised during the year	**626**	496
Net movement in the debt instrument revaluation reserve during the year recognised in other comprehensive income	**626**	496
Equity instruments measured at fair value through other comprehensive income		
Changes in fair value recognised during the year	**729**	332
Net movement in the equity investment revaluation reserve during the year recognised in other comprehensive income	**729**	332
Cash flow hedge		
Effective portion of changes in fair value of hedging instruments	**(101)**	106
Reclassification adjustment for realised (loss) gain to profit or loss	**(1)**	43
Net movement in the hedging reserve during the year recognised in other comprehensive income	**(102)**	149

17. Earnings per share

The calculation of basic earnings per share for the years 2019 and 2018 are based on the net profit attributable to ordinary shareholders of the Bank and the weighted average number of shares in issue during corresponding years. There is no difference between basic and diluted earnings per share for the years 2019 and 2018.

	2019	2018
Net profit attributable to equity shareholders of the Bank	**92,867**	80,560
Less: Net profit attributable to preference shareholders of the Bank	**(1,670)**	(1,659)
Net profit attributable to ordinary shareholders of the Bank	**91,197**	78,901
Weighted average number of shares in issue (in million)	**25,220**	25,220
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**3.62**	3.13

Note:

The Bank issued non-cumulative preference shares in year 2017. For the purpose of calculating basic earnings per share for the year ended 31 December 2019 and 2018, dividends on non-cumulative preference shares declared in corresponding years should be deducted from the amounts attributable to equity shareholders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not exist as at 31 December 2019 and 2018. Therefore the conversion feature of preference shares has no effect on the calculation of diluted earnings per share.

18. Balances with central banks

	2019	2018
Statutory deposit reserve (note (i))	**472,533**	438,777
Surplus deposit reserve (note (ii))	**75,077**	36,488
Fiscal deposits	**4,697**	2,056
Interest receivable	**283**	247
Total	**552,590**	477,568

Notes:

(i) Statutory deposit reserve funds are deposited with the PBOC as required and are not available for the Group's daily operations. The statutory deposit reserve funds of the Bank's institutions located in Mainland China are calculated at 10.5% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2019 (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 and settlement purposes.

19. Balances with banks and other financial institutions

	2019	2018
Principal (a)	**106,306**	100,022
Impairment allowances (a)(b)	**(372)**	(171)
Subtotal	**105,934**	99,851
Interest receivable	**179**	309
Total	**106,113**	100,160

(a) Analysed by nature of counterparties

	2019	2018
Balances in Mainland China		
– Banks	**73,825**	60,222
– Other financial institutions	**2,484**	2,833
Subtotal	**76,309**	63,055
Balances outside Mainland China		
– Banks	**29,923**	36,861
– Other financial institutions	**74**	106
Subtotal	**29,997**	36,967
Total	**106,306**	100,022
Less: Impairment allowances		
– Banks	**(361)**	(133)
– Other financial institutions	**(11)**	(38)
Subtotal	**(372)**	(171)
Total	**105,934**	99,851

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

	2019	2018
Balance as at the beginning of the year	**171**	138
Charge for the year (note 14)	**201**	43
Exchange difference	**–**	(10)
Balance as at the end of the year	**372**	171

20. Placements with banks and other financial institutions

	2019	2018
Principal (a)	**306,656**	312,559
Impairment allowances (a)(c)	**(338)**	(405)
Subtotal	**306,318**	312,154
Interest receivable	**1,115**	1,257
Total	**307,433**	313,411

(a) Analysed by nature of counterparties

	2019	2018
Placements in Mainland China		
– Banks	**80,251**	99,487
– Other financial institutions	**155,386**	136,274
Subtotal	**235,637**	235,761
Placements outside Mainland China		
– Banks	**71,019**	76,798
Subtotal	**71,019**	76,798
Total	**306,656**	312,559
Less: Impairment allowances		
– Banks	**(58)**	(180)
– Other financial institutions	**(280)**	(225)
Subtotal	**(338)**	(405)
Total	**306,318**	312,154

(b) Analysed by residual maturity

	2019	2018
Maturing		
– Within one month (inclusive)	**216,735**	208,432
– Between one month and one year (inclusive)	**75,796**	102,493
– Over one year	**13,787**	1,229
Total	**306,318**	312,154

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

	2019	2018
Balance as at the beginning of the year	**405**	184
(Release)/charge for the year (note 14)	**(68)**	218
Exchange difference	**1**	3
Balance as at the end of the year	**338**	405

21. Amounts held under resale agreements

	2019	2018
Principal (a)	**109,353**	199,918
Impairment allowances (a)(d)	**(396)**	(737)
Subtotal	**108,957**	199,181
Interest receivable	**4**	205
Total	**108,961**	199,386

(a) Analysed by nature of counterparties

	2019	2018
Amounts held under resale agreements in Mainland China		
– Banks	**16,377**	47,793
– Other financial institutions	**92,955**	152,125
Amounts held under resale agreements outside Mainland China		
– Other financial institutions	**21**	–
Subtotal	**109,353**	199,918
Less: Impairment allowances		
– Banks	**(222)**	(229)
– Other financial institutions	**(174)**	(508)
Subtotal	**(396)**	(737)
Total	**108,957**	199,181

(b) Analysed by residual maturity

	2019	2018
Maturing		
– Within one month (inclusive)	**108,014**	198,183
– Between one month and one year (inclusive)	**943**	998
Total	**108,957**	199,181

(c) Analysed by underlying assets

	2019	2018
Bonds	**107,219**	188,429
Bills	**1,738**	10,752
Total	**108,957**	199,181

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

	2019	2018
Balance as at the beginning of the year	**737**	1,364
Release for the year (note 14)	**(341)**	(629)
Exchange difference	**–**	2
Balance as at the end of the year	**396**	737

22. Loans and advances to customers

(a) Loans and advances to customers

	2019	2018
Gross amount of loans and advances to customers at amortised cost (i)	**4,220,771**	3,755,264
Interest receivable	**9,514**	8,810
Subtotal	**4,230,285**	3,764,074
Less: loss allowances of loans and advances to customers at amortised cost (i)	**(222,756)**	(191,772)
loss allowances of interest receivable	**(143)**	(123)
Subtotal	**(222,899)**	(191,895)
Loans and advances to customers at amortised cost	**4,007,386**	3,572,179
Loans and advances to customers at FVTOCI (ii)	**264,135**	177,367
Loans and advances to customers at FVTPL (iii)	**5,779**	403
Total	**4,277,300**	3,749,949

(i) Loans and advances to customers at amortised cost

	2019	2018
Corporate loans and advances	**1,858,130**	1,745,925
Retail loans and advances	**2,362,616**	2,009,339
Discount bills	**25**	–
Gross amount of loans and advances to customers at amortised cost	**4,220,771**	3,755,264
Less: loss allowances		
– Stage 1 (12-month ECL)	**(138,803)**	(105,978)
– Stage 2 (Lifetime ECL- not credit-impaired)	**(37,644)**	(38,517)
– Stage 3 (Lifetime ECL- credit impaired)	**(46,309)**	(47,277)
Subtotal	**(222,756)**	(191,772)
Net amount of loans and advances to customers at amortised cost	**3,998,015**	3,563,492

(ii) Loans and advances to customers at FVTOCI

	2019	2018
Corporate loans and advances	**38,120**	27,601
Discount bills	**226,015**	149,766
Loans and advances to customers at FVTOCI	**264,135**	177,367
Loss allowances		
– Stage 1 (12-month ECL)	**(213)**	(187)
– Stage 2 (Lifetime ECL- not credit-impaired)	**(117)**	(41)
– Stage 3 (Lifetime ECL- credit impaired)	**(11)**	–
Subtotal	**(341)**	(228)

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

(iii) Loans and advances to customers at FVTPL

	2019	2018
Corporate loans and advances	**5,744**	403
Interest receivable	**35**	–
Subtotal	**5,779**	403

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

(b) Analysis of loans and advances to customers

(i) Analysed by industry sector and category:

Operations in the Mainland China

	2019	2018
Property development	**308,342**	262,323
Transportation, storage and postal services	**306,642**	248,815
Manufacturing	**240,717**	255,683
Wholesale and retail	**151,278**	157,984
Production and supply of electric power, heating power, gas and water	**144,530**	138,773
Leasing and commercial services	**144,377**	124,094
Construction	**95,279**	84,475
Finance	**63,420**	61,963
Water, environment and public utilities management	**57,044**	55,890
Telecommunications, software and IT services	**51,406**	60,703
Mining	**29,744**	35,349
Others	**59,640**	59,021
Subtotal of corporate loans and advances	**1,652,419**	1,545,073
Discounted bills	**226,040**	149,766
Residential mortgage	**1,098,673**	921,500
Credit cards	**670,922**	575,299
Micro-finance loans	**405,155**	349,009
Others	**152,193**	141,835
Subtotal of retail loans and advances	**2,326,943**	1,987,643
Gross amount of loans and advances to customers	**4,205,402**	3,682,482

Operations outside Mainland China

	2019	2018
Finance	**63,286**	52,174
Property development	**60,035**	54,167
Transportation, storage and postal services	**30,567**	38,212
Leasing and commercial services	**28,992**	2,001
Manufacturing	**20,994**	26,860
Wholesale and retail	**11,579**	12,505
Mining	**9,445**	2,196
Production and supply of electric power, heating power, gas and water	**5,553**	7,889
Telecommunications, software and IT services	**4,494**	9,309
Construction	**2,196**	5,635
Water, environment and public utilities management	**1,219**	26
Others	**11,215**	17,882
Subtotal of corporate loans and advances	**249,575**	228,856
Residential mortgage	**9,475**	7,260
Credit cards	**177**	191
Micro-finance loans	**625**	1,525
Others	**25,396**	12,720
Subtotal of retail loans and advances	**35,673**	21,696
Gross amount of loans and advances to customers	**285,248**	250,552

As at 31 December 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%).

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

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

(ii) Analysed by type of guarantees:

	31 December 2019	31 December 2018
Credit loans	**1,535,977**	1,320,545
Guaranteed loans	**636,709**	583,242
Collateralised loans	**1,859,500**	1,653,517
Pledged loans	**232,424**	225,964
Subtotal	**4,264,610**	3,783,268
Discounted bills	**226,040**	149,766
Gross amount of loans and advances to customers	**4,490,650**	3,933,034

Note:

During the reporting period, for those business using domestic letter of credit, domestic standby L/C or overseas standby L/C as collateral, the Group and the Bank reclassified the type of guarantees from pledged loans to guaranteed loans while restated the figures respectively.

(iii) Analysed by overdue term:

	31 December 2019				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	**10,953**	**10,259**	**1,745**	**677**	**23,634**
Guaranteed loans	**2,608**	**3,952**	**6,732**	**3,519**	**16,811**
Collateralised loans	**4,691**	**4,207**	**3,800**	**3,068**	**15,766**
Pledged loans	**647**	**1,870**	**4,380**	**255**	**7,152**
Gross amount of loans and advances to customers	**18,899**	**20,288**	**16,657**	**7,519**	**63,363**

	31 December 2018				
	Overdue within 3 months	Overdue from 3 months up to 1 year	Overdue from 1 year up to 3 years	Overdue more than 3 years	Total overdue loans
Credit loans	7,645	6,674	1,679	351	16,349
Guaranteed loans	2,922	4,313	9,441	2,798	19,474
Collateralised loans	4,692	5,306	6,684	3,314	19,996
Pledged loans	4,472	154	1,326	232	6,184
Gross amount of loans and advances to customers	19,731	16,447	19,130	6,695	62,003

Note:

Loans are classified as overdue when the principal or interest is overdue more than one day.

Among the above-mentioned overdue loans and advances to customers, collateralised loans and pledged loans that are overdue but not impaired at the balance sheet date are as follows:

	31 December 2019	31 December 2018
Collateralised loans that are overdue but not impaired	**3,904**	3,084
Pledged loans that are overdue but not impaired	**682**	4,472
Total	**4,586**	7,556

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

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

(iv) Analyzed by ECL

	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	**4,088,065**	**80,141**	**52,565**	**4,220,771**
Less: Loss allowances of loans and advances to customers at amortised cost	**(138,803)**	**(37,644)**	**(46,309)**	**(222,756)**
Net amount of loans and advances to customers at amortised cost	**3,949,262**	**42,497**	**6,256**	**3,998,015**
Loans and advances to customers at FVTOCI	**263,144**	**972**	**19**	**264,135**
Loss allowances of loans and advances to customers at FVTOCI	**(213)**	**(117)**	**(11)**	**(341)**

	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)

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

(c) Movements of allowance for expected credit loss

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

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	105,978	38,517	47,277	191,772
Transfer to				
– Stage 1	3,108	(3,059)	(49)	–
– Stage 2	(605)	1,375	(770)	–
– Stage 3	(684)	(9,480)	10,164	–
Charge for the year (note 14)	30,869	10,271	12,961	54,101
Write-offs/disposes	–	–	(32,201)	(32,201)
Unwinding of discount on allowance	–	–	(286)	(286)
Recovery of loans and advances written off	–	–	9,170	9,170
Exchange difference	137	20	43	200
Balance as at the end of the year	138,803	37,644	46,309	222,756

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	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 for the year (note 14)	38,643	10,505	10,056	59,204
Write-offs/disposes	–	–	(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 the end of the year	105,978	38,517	47,277	191,772

(ii) **Reconciliation of allowance for expected credit loss measured at FVTOCI:**

	2019	2018
Balance as at the beginning of the year	228	180
Charge for the year (note 14)	113	48
Balance as at the end of the year	341	228

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

(d) Finance leases receivable

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

	2019
Total minimum leases receivable	
Within 1 year (inclusive)	**30,035**
Over 1 year but within 2 years (inclusive)	**22,547**
Over 2 years but within 3 years (inclusive)	**17,072**
Over 3 years but within 4 years (inclusive)	**12,446**
Over 4 years but within 5 years (inclusive)	**8,880**
Over 5 years	**30,775**
Subtotal	**121,755**
Unearned finance income	**(17,822)**
Present value of minimum leases receivable	**103,933**
Less: Impairment allowances	
– Stage 1 (12-month ECL)	**(1,965)**
– Stage 2 (Lifetime ECL- not credit-impaired)	**(1,608)**
– Stage 3 (Lifetime ECL- credit impaired)	**(743)**
Net carrying amount of finance leases receivable	**99,617**

Note: As stated in note 3(1), the finance leases receivable at 31 December 2019 does not include the receivable of 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.

	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 carrying amount of in finance leases receivable			130,913

23. Investments

	Notes	2019	2018
Financial assets at fair value through profit or loss	23(a)	**398,276**	330,302
Derivative financial assets	60(f)	**24,219**	34,220
Debt investments at amortised cost	23(b)	**921,228**	916,012
Debt investments at FVTOCI	23(c)	**478,856**	421,070
Equity investments designated at FVTOCI	23(d)	**6,077**	4,015
Total		**1,828,656**	1,705,619

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

	Notes	2019	2018
Investments measured at FVTPL	(i)	**393,154**	316,898
Financial assets designated at fair value through profit or loss	(ii)	**5,122**	13,404
Total		**398,276**	330,302

(i) Investments measured at FVTPL

Financial assets held for trading

	2019	2018
Bonds:		
Classified by issuer		
– Government bonds	**24,787**	21,295
– Bonds issued by policy banks	**10,364**	9,317
– Bonds issued by commercial banks and other financial institutions	**20,641**	17,460
– Other debt securities	**52,922**	48,147
Subtotal	**108,714**	96,219
Classified by listing		
– Listed in Mainland China	**92,374**	86,565
– Listed outside Mainland China	**15,178**	8,571
– Unlisted	**1,162**	1,083
Subtotal	**108,714**	96,219
Other investments:		
Classified by underlying assets		
– Equity investments	**242**	111
– Investments in funds	**4,084**	3,306
– Long position in precious metal contracts	**183**	111
Subtotal	**4,509**	3,528
Classified by listing		
– Listed in Mainland China	**231**	84
– Listed outside Mainland China	**190**	121
– Unlisted	**4,088**	3,323
Subtotal	**4,509**	3,528
Total financial assets held for trading	**113,223**	99,747

23. Investments *(continued)*

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

(i) Investments measured at FVTPL *(continued)*

Other investments measured at FVTPL

	2019	2018
Bonds:		
Classified by issuer		
– Bonds issued by commercial banks and other financial institutions	**4,294**	22,684
– Other debt securities	**5,126**	2,344
Subtotal	**9,420**	25,028
Classified by listing		
– Listed in Mainland China	**8,950**	24,641
– Listed outside Mainland China	**71**	–
– Unlisted	**399**	387
Subtotal	**9,420**	25,028
Other investments:		
Classified by underlying assets		
– Non-standard assets – Bills	**199,817**	174,845
– Equity investments	**2,215**	1,450
– Investments in funds	**67,615**	14,765
– Wealth management products	**864**	1,060
– Others	**–**	3
Subtotal	**270,511**	192,123
Classified by listing		
– Listed in Mainland China	**121**	–
– Listed outside Mainland China	**790**	–
– Unlisted	**269,600**	192,123
Subtotal	**270,511**	192,123
Total other investments measured at FVTPL	**279,931**	217,151

23. Investments *(continued)*

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

(ii) Financial assets designated at fair value through profit or loss

	2019	2018
Bonds:		
Classified by issuer		
– Bonds issued by policy banks	**79**	2,314
– Bonds issued by commercial banks and other financial institutions	**1,630**	7,382
– Other debt securities	**3,413**	3,708
Total	**5,122**	13,404
Classified by listing		
– Listed in Mainland China	**–**	160
– Listed outside Mainland China	**4,830**	5,410
– Unlisted	**292**	7,834
Total	**5,122**	13,404

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 years ended 31 December 2019 and 2018 and as at 31 December 2019 and 2018.

(b) Debt investments at amortised cost

	2019	2018
Debt investments at amortised cost (i)(ii)	**921,467**	911,348
Interest receivable	**13,821**	12,790
Subtotal	**935,288**	924,138
Impairment losses of principal (i)(ii)(iii)	**(13,995)**	(8,080)
Impairment losses of interest receivable	**(65)**	(46)
Subtotal	**(14,060)**	(8,126)
Total	**921,228**	916,012

23. Investments *(continued)*

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

(i) Debt investments at amortised cost:

	2019	2018
Bonds:		
Classified by issuer		
– Government bonds	**498,310**	400,107
– Bonds issued by policy banks	**239,480**	219,275
– Bonds issued by commercial banks and other financial institutions	**33,026**	29,602
– Other debt securities	**7,354**	8,942
Subtotal	**778,170**	657,926
Classified by listing		
– Listed in Mainland China	**772,837**	651,347
– Listed outside Mainland China	**3,243**	3,490
– Unlisted	**2,090**	3,089
Subtotal	**778,170**	657,926
Fair value for the listed bonds	**794,212**	666,092
Other investments:		
Classified by underlying assets		
– Non-standard assets – Bills	**1,334**	43,655
– Non-standard assets – Loans and advances to customers	**138,749**	206,229
– Non-standard assets – Creditor's beneficiary rights to other commercial banks	**2,650**	3,000
– Others	**564**	538
Subtotal	**143,297**	253,422
Classified by listing		
– Unlisted	**143,297**	253,422
Total	**921,467**	911,348
Less: loss allowances		
Stage 1 (12-month ECL)	**(9,179)**	(3,582)
Stage 2 (Lifetime ECL – not credit-impaired)	**(283)**	(517)
Stage 3 (Lifetime ECL – credit impaired)	**(4,533)**	(3,981)
Net debt investments at amortised cost	**907,472**	903,268

23. Investments *(continued)*

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

(ii) Analyzed by stage of ECL:

	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	**916,206**	**580**	**4,681**	**921,467**
Less: Loss allowances of debt investments at amortised cost	**(9,179)**	**(283)**	**(4,533)**	**(13,995)**
Net debt investments at amortised cost	**907,027**	**297**	**148**	**907,472**

	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	906,028	1,037	4,283	911,348
Less: Loss allowances of debt investments at amortised cost	(3,582)	(517)	(3,981)	(8,080)
Net debt investments at amortised cost	902,446	520	302	903,268

23. Investments *(continued)*

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

(iii) Movements of allowances for expected credit loss

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	3,582	517	3,981	8,080
Transfer to:				
– Stage 1	1	(1)	–	–
– Stage 2	–	–	–	–
– Stage 3	(2)	(1)	3	–
Charge (Release) for the year (note 14)	5,593	(232)	442	5,803
Write-offs	–	–	(2)	(2)
Recoveries of debt previously written off	–	–	105	105
Exchange difference	5	–	4	9
Balance as at the end of the year	9,179	283	4,533	13,995

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	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 (note 14)	(890)	488	1,189	787
Recoveries of debt previously written off	–	–	192	192
Exchange difference	32	–	4	36
Balance as at the end of the year	3,582	517	3,981	8,080

23. Investments *(continued)*

(c) Debt investments at FVTOCI

	2019	2018
Debt investments at FVTOCI (i)	**472,586**	414,691
Interest receivable	**6,270**	6,379
Total	**478,856**	421,070
Impairment losses of debt investments at FVTOCI (ii)	**(2,600)**	(1,897)
Impairment losses of interest receivable	**(1)**	(15)
Total	**(2,601)**	(1,912)

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

(i) Debt investments at FVTOCI ：

	2019	2018
Bonds:		
Classified by issuer		
– Government bonds	**260,092**	220,078
– Bonds issued by policy banks	**66,318**	60,365
– Bonds issued by commercial banks and other financial institutions	**102,750**	98,428
– Other debt securities	**43,426**	35,820
Total	**472,586**	414,691
Classified by listing		
– Listed in Mainland China	**323,090**	292,347
– Listed outside Mainland China	**54,995**	50,486
– Unlisted	**94,501**	71,858
Total	**472,586**	414,691

(ii) Movements of allowances for expected credit loss

	2019	2018
Balance as at the beginning of the year	**1,897**	1,445
Charge for the year (note 14)	**678**	389
Write-offs	**(3)**	–
Exchange difference	**28**	63
Balance as at the end of the year	**2,600**	1,897

23. Investments *(continued)*

(d) Equity investments designated at FVTOCI

	2019	2018
Repossessed equity instruments	625	220
Others	5,452	3,795
Total	6,077	4,015
Classified by listing		
– Listed in Mainland China	197	66
– Listed outside Mainland China	2,131	1,410
– Unlisted	3,749	2,539
Total	6,077	4,015

During the year ended 31 December 2019, because the loss of equity instruments has reached the group's stop-loss Limits and disposal of repossessed equity instruments, the fair value of the equity investment designated at FVOCI at the date of derecognition was RMB112 million (2018: RMB17 million), the cumulative loss on disposal was RMB23 million (2018: RMB4 million) which was transferred from investment revaluation reserve to retained profits on disposal.

24. Particulars of principal subsidiaries of the bank

The following list contains only particulars of subsidiaries which principally affected the financial results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 4(1) and have been included in the scope of the consolidated financial statements of the Group.

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 activities	Economic nature	Legal representative
CMB International Capital Holdings Corporation Limited (note (i))	Hong Kong	HKD4,129	100%	Financial advisory services	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited (note (ii))	Shanghai	RMB6,000	100%	Finance lease	Limited company	Shi Shunhua
CMB Wing Lung Bank Limited (note (iii))	Hong Kong	HKD1,161	100%	Banking	Limited company	Zhu Qi
China Merchants Fund Management Co., Ltd. (note (iv))	Shenzhen	RMB1,310	55%	Fund management	Limited company	Liu Hui
CMB Wealth Management Co., Ltd (note (v))	Shenzhen	RMB5,000	100%	Asset management	Limited company	Liu Hui
China Merchants Europe S.A. (note (vi))	Luxembourg	EUR50	100%	Banking	Limited company	Li Biao

24. Particulars of principal subsidiaries of the bank *(continued)*

Notes:

(i) CMB International Capital Holdings Corporation Limited ("CMBICHC"), formerly known as Jiangnan Finance Company Limited and CMB International Capital Corporation Limited, is the Bank's wholly-owned subsidiary approved by the PBOC through its Yin Fu [1998] No. 405. In 2014, the Bank made an additional capital contribution of HKD750 million in CMBICHC. The capital of CMBICHC increased to HKD1,000 million, and the Bank's shareholding percentage remains unchanged.

The Board of Directors have considered and passed "The Resolution regarding the Capital Increase and Restructuring of CMBICHC" which agreed that the Bank made capital contribution of USD400 million (or its equivalent) to CMBICHC on 28 July 2015. The capital contribution completed on 20 January 2016.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the CBIRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008. In 2014, the Bank made an additional capital contribution of RMB2,000 million in CMBFLC. The capital of CMBFLC increased to RMB6,000 million and the Bank's shareholding percentage remains unchanged.

(iii) CMB Wing Lung Bank Limited ("CMB WLB"), formerly known as Wing Lung Bank Limited. On 30 September 2008, the Bank acquired a 53.12% equity interests in CMB WLB. CMB WLB became a wholly owned subsidiary of the bank on 15 January 2009. CMB WLB had withdrawn from listing on the HKEx as of 16 January 2009.

(iv) In 2012, the Bank acquired 21.6% equity interests in China Merchants Fund Management Co., Ltd. ("CMFM"), its former associate, from ING Asset Management B.V. at a consideration of EUR63,567,567.57. Following the settlement of the above consideration in cash, the Bank's shareholding in CMFM increased from 33.4% to 55.0% in 2013. As a result, the Bank obtained the control over CMFM, which became the Bank's subsidiary on 28 November 2013. In December 2017, the Bank made an additional capital contribution of RMB605 million in CMFM, and other shareholders of CMFM also make capital contribution of RMB495 million proportionally. The capital of CMFM increased to RMB1,310 million, and the Bank's shareholding percentage remains unchanged.

(v) CMB Wealth Management Co., Ltd. ("CMBWM") is a wholly-owned subsidiary approved by the Bank with the China Banking Regulatory Commission, Yinbao Jianfu [2019] No. 981, and commenced its operation on November 1, 2019.

(vi) China Merchants Europe S.A. ("CMB Europe S.A.") is a wholly-owned subsidiary approved by the Bank of China Banking Regulatory Commission Yin Jian Fu [2016] No. 460. It was formally established in November 2019 and is currently waiting for a commercial banking license from the Luxembourg financial regulatory authority (CSSF).

25. Interest in joint ventures

	2019	2018
Share of net assets	**10,324**	8,622
Share of profits for the year	**1,686**	1,272
Share of other comprehensive income (expense) for the year	**351**	(36)

Details of the Group's interest 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. CIGNA & CMB Life is the only joint venture directly held by the Bank. The Bank and INA share the joint venture's profits, risks and losses by their proportion of shareholding. The Bank's investment in CIGNA & CMB Life is accounted for 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"). 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 to CUNC, with the other shareholder of CUNC injected capital proportionally. The capital of CUNC increased to RMB2,859 million, and the Bank's shareholding percentage reached 15%, CMB WLB's shareholding percentage decreased to 35%, resulting the Group's shareholding percentage remained unchanged. In December 2018, the Group made an additional capital contribution of RMB1,000 million to CUNC, and the other shareholder of CUNC 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.

25. Interest in joint ventures *(continued)*

Summarised financial information of the joint ventures which are individually material to the Group is as below:

(i) CIGNA & CMB Life

	Assets	Liabilities	Equity	Revenue	Net profit	Other comprehensive income	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2019										
CIGNA & CMB Life	**58,752**	**51,089**	**7,663**	**20,164**	**1,378**	**724**	**2,102**	**522**	**47**	**221**
Group's effective interest	**29,376**	**25,545**	**3,831**	**10,082**	**689**	**351**	**1,040**	**261**	**24**	**111**
2018										
CIGNA & CMB Life	45,332	39,549	5,783	16,649	1,045	(25)	1,020	303	28	245
Group's effective interest	22,666	19,775	2,891	8,325	509	(13)	496	152	14	123

(ii) MUCFC:

	Assets	Liabilities	Equity	Revenue	Net profit	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2019									
MUCFC	**92,697**	**83,337**	**9,360**	**10,740**	**1,466**	**1,466**	**1,015**	**44**	**426**
Group's effective interest	**46,349**	**41,669**	**4,680**	**5,370**	**734**	**734**	**508**	**22**	**213**
2018									
MUCFC	74,748	66,855	7,893	6,956	1,253	1,253	2,273	10	391
Group's effective interest	37,374	33,428	3,946	3,478	626	626	1,137	5	196

Summarised financial information of the joint ventures that are not individually material to the Group:

	Net profit	Other comprehensive income	Total comprehensive income
2019			
Others	**1,403**	–	**1,403**
Group's effective interest	**263**	–	**263**
2018			
Others	1,051	(111)	940
Group's effective interest	137	(23)	114

26. Interest in associates

	2019	2018
Share of net assets	**460**	249
Share of profits for the year	**37**	37
Share of other comprehensive income for the year	**17**	–

The following list contains the information of associates, which are unlisted corporate entities and are not individually material to the Group:

	Net profit	Other comprehensive income	Total comprehensive income
2019			
Others	**3,764**	**93**	**3,857**
Group's effective interest	**37**	**17**	**54**
2018			
Others	4,837	–	4,837
Group's effective interest	37	–	37

27. Investment properties

	2019	2018
Cost:		
At 1 January	**3,488**	2,855
Transfers in/(out)	**32**	550
Disposals	**–**	(12)
Exchange difference	**38**	95
At 31 December	**3,558**	3,488
Accumulated depreciation:		
At 1 January	**1,427**	1,243
Depreciation	**171**	134
Transfers in/(out)	**18**	17
Disposals	**–**	(12)
Exchange difference	**17**	45
At 31 December	**1,633**	1,427
Net carrying amount:		
At 31 December	**1,925**	2,061
At 1 January	**2,061**	1,612

As at 31 December 2019, no impairment allowance was considered necessary for investment properties by the management of the Group (2018: Nil).

27. Investment properties *(continued)*

Investment properties of the Group mainly represent the leased properties of CMB WLB and the Bank's properties in Beijing, Shenzhen, Zhengzhou, Qingdao and Hefei, etc. that have been leased out under operating leases. The fair value of the Group's investment properties is determined by the method of capitalization of net rental income. There has been no change to the valuation methodology during the year. As at 31 December 2019, the fair value of these properties was RMB4,665 million (2018: RMB4,645 million). The Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	2019
Within 1 year (inclusive)	**414**
1 year to 2 years (inclusive)	**267**
2 year to 3 years (inclusive)	**148**
3 year to 4 years (inclusive)	**68**
4 year to 5 years (inclusive)	**64**
Over 5 years	**424**
Total	**1,385**

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

The fair value hierarchy of Investment properties of the Group are listed as below:

	Level 1	Level 2	Level 3	**Fair Value as at 31 December 2019**
Held in Mainland China	–	–	1,828	**1,828**
Held overseas	–	–	2,837	**2,837**
Total	–	–	4,665	**4,665**

	Level 1	Level 2	Level 3	Fair Value as at 31 December 2018
Held in Mainland China	–	–	1,781	1,781
Held overseas	–	–	2,864	2,864
Total	–	–	4,645	4,645

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

28. Property and equipment

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 2019	25,923	1,646	12,276	7,669	33,904	6,369	87,787
Additions	1,510	1,506	1,882	847	14,168	726	20,639
Reclassification and transfers	104	(188)	–	52	–	–	(32)
Disposals	(244)	–	(427)	(76)	(5,249)	(746)	(6,742)
Exchange difference	63	–	19	18	486	2	588
At 31 December 2019	27,356	2,964	13,750	8,510	43,309	6,351	102,240
Accumulated depreciation:							
At 1 January 2019	9,412	–	8,789	4,869	3,169	5,342	31,581
Depreciation	1,233	–	1,765	587	2,165	458	6,208
Reclassification and transfers	(18)	–	–	–	–	–	(18)
Disposals	(152)	–	(401)	(24)	(878)	(701)	(2,156)
Exchange difference	37	–	10	9	67	1	124
At 31 December 2019	10,512	–	10,163	5,441	4,523	5,100	35,739
Impairment loss:							
At 1 January 2019	–	–	–	–	–	–	–
Additions	–	–	–	–	93	–	93
At 31 December 2019	–	–	–	–	93	–	93
Net carrying amount:							
At 31 December 2019	16,844	2,964	3,587	3,069	38,693	1,251	66,408
At 1 January 2019	16,511	1,646	3,487	2,800	30,735	1,027	56,206

28. Property and equipment *(continued)*

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipment	Motor vehicles and others	Total
Cost:							
At 1 January 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 carrying amount:							
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 31 December 2019, the process of obtaining the registration license for the Group's properties with an aggregate net carrying value of RMB2,516 million (2018: RMB2,066 million) was still in progress.

(b) As at 31 December 2019, the Group has no significant unused property and equipment (2018: nil).

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

	2019
Within 1 year (inclusive)	**4,740**
1 year to 2 years (inclusive)	**4,677**
2 year to 3 years (inclusive)	**4,427**
3 year to 4 years (inclusive)	**4,133**
4 year to 5 years (inclusive)	**3,456**
Over 5 years	**13,057**
Total	**34,490**

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

29. Lease contracts

(a) Right-of-use assets

	Land use rights	Buildings	Computer equipment	Motor vehicles and others	Total
Cost:					
At 31 December 2018	–	–	–	–	–
Adjustments under IFRS 16	6,074	13,690	5	5	19,774
At 1 January 2019	6,074	13,690	5	5	19,774
Additions	–	5,421	1	16	5,438
Disposals	(106)	(509)	(3)	(3)	(621)
At 31 December 2019	5,968	18,602	3	18	24,591
Accumulated depreciation:					
Adjustments under IFRS 16	662	–	–	–	662
At 1 January 2019	662	–	–	–	662
Depreciation (Note 10)	185	4,173	1	5	4,364
Disposals	(17)	(418)	–	–	(435)
At 31 December 2019	830	3,755	1	5	4,591
Net carrying amount:					
At 31 December 2019	5,138	14,847	2	13	20,000
At 1 January 2019	5,412	13,690	5	5	19,112

The Group mainly leases land use rights and buildings for its operations. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

(b) Lease liabilities

As at 31 December 2019, analysis of the Group's lease liabilities by residual maturity is as follows:

	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	Total
Lease liabilities	527	476	2,729	8,436	2,211	14,379

Interest expense on lease liabilities are set out in note 7.

(c) Short-term leases and leases of low-value assets

Short-term leases expense and leases of low-value assets expense are disclosed in note 10. The Group entered into short-term leases for buildings, computer equipment, motor vehicles and others. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 10.

(d) During the year ended 31 December 2019, the total cash outflow of the Group's leases amount to RMB4,604 million.

(e) As at 31 December 2019, the leases committed but not yet commenced is not significant.

30. 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	–	1,840	–	1,840
Disposals	–	(3)	–	(3)
Exchange difference	–	2	24	26
At 31 December 2019	–	8,161	1,186	9,347
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 10)	–	973	41	1,014
Disposals	–	–	–	–
Exchange difference	–	2	10	12
At 31 December 2019	–	4,294	478	4,772
Net carrying amount:				
At 31 December 2019	–	3,867	708	4,575
At 1 January 2019	–	3,003	735	3,738

	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 (Note 10)	237	706	40	983
Transfers/disposals	(2)	(3)	–	(5)
Exchange difference	1	3	29	33
At 31 December 2018	662	3,319	427	4,408
Net carrying amount:				
At 31 December 2018	5,412	3,003	735	9,150
At 1 January 2018	4,208	2,310	737	7,255

31. Goodwill

	As at 1 January 2019	Addition in the year	Release in the year	As at 31 December 2019	Impairment loss at 1 January 2019 and 31 December 2019	Net value at 1 January 2019 and 31 December 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. The details about CMB WLB are set out in Note 24.

(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. The details about CMFM are set out in Note 24.

(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.

Impairment test for CGU containing goodwill

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

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

In assessing impairment of goodwill, the Group assumed that the terminal growth rate is comparable to the forecast long-term economic growth rate issued by authoritative institutions. A pre-tax discount rate of 9% and 12% (2018: 12% and 14%) was used. The Group believes any reasonably possible further change in the key assumptions on which recoverable amount are based would not cause the carrying amounts to exceed their recoverable amounts.

32. Deferred tax assets, deferred tax liabilities

	2019	2018
Deferred tax assets	65,151	58,374
Deferred tax liabilities	(956)	(1,211)
Net amount	64,195	57,163

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

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

	2019		2018	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advances to customers and other assets at amortised cost	237,143	59,185	206,932	51,684
Financial assets at FVTOCI	(8,952)	(2,238)	(5,899)	(1,475)
Financial instruments at FVTPL	(1,263)	(316)	7,758	1,940
Salary and welfare payable	26,482	6,621	18,582	4,646
Others	7,580	1,899	6,980	1,579
Total	260,990	65,151	234,353	58,374
Deferred tax liabilities				
Impairment allowances on loans and advances to customers and other assets at amortised cost	291	47	207	34
Financial assets at FVTOCI	(29)	(6)	244	38
Financial instruments at FVTPL	11	3	(116)	(29)
Others	(6,376)	(1,000)	(8,524)	(1,254)
Total	(6,103)	(956)	(8,189)	(1,211)

32. Deferred tax assets, deferred tax liabilities *(continued)*

(b) Movements of deferred tax

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets 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	7,491	177	(2,224)	1,975	541	7,960
Recognised in other comprehensive Income	–	(984)	–	–	13	(971)
Exchange difference	23	–	–	–	20	43
At 31 December 2019	59,232	(2,244)	(313)	6,621	899	64,195

	Impairment allowances on loans and advances to customers and other assets at amortised cost	Financial assets at FVTOCI	Financial instruments at FVTPL	Salary and welfare payable	Others	Total
At 1 January 2018	43,894	921	2,208	3,884	354	51,261
Recognised in profit or loss	7,819	(6)	(297)	762	21	8,299
Recognised in other comprehensive Income	–	(2,352)	–	–	(19)	(2,371)
Exchange difference	5	–	–	–	(31)	(26)
At 31 December 2018	51,718	(1,437)	1,911	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.

33. Other assets

	2019	2018
Amounts pending for settlement	11,219	9,344
Continuing involvement assets	987	–
Interest receivable	3,148	2,888
Prepaid lease payments	345	1,117
Repossessed assets (note (a))	768	597
Guarantee deposits	619	794
Recoverable from reinsurers	192	209
Prepayment for lease hold improvement and other miscellaneous items	3,436	2,416
Premium receivables	122	112
Post-employment benefits		
– Defined benefit plan (Note 39(b))	22	31
Others	17,132	15,060
Total	37,990	32,568

(a) Repossessed assets

	2019	2018
Residential properties	923	767
Others	19	18
Total	942	785
Less: impairment allowances	(174)	(188)
Net repossessed assets	768	597

Notes:

(i) In 2019, the Group has disposed of repossessed assets with a total cost of RMB15 million (2018: RMB143 million).

(ii) The Group plans to dispose of the repossessed assets by auction, bid or agreement transfer.

34. Deposits from banks and other financial institutions

	2019	2018
Principal (a)	**553,684**	469,008
Interest payable	**1,897**	1,818
Total	**555,581**	470,826

(a) Analysed by nature of counterparties

	2019	2018
In Mainland China		
– Banks	**60,111**	108,732
– Other financial institutions	**478,894**	350,347
Subtotal	**539,005**	459,079
Outside Mainland China		
– Banks	**14,638**	9,897
– Other financial institutions	**41**	32
Subtotal	**14,679**	9,929
Total	**553,684**	469,008

35. Placements from banks and other financial institutions

	2019	2018
Principal (a)	**165,403**	202,974
Interest payable	**518**	976
Total	**165,921**	203,950

(a) Analysed by nature of counterparties

	2019	2018
In Mainland China		
– Banks	**77,526**	81,876
– Other financial institutions	**9,138**	48,311
Subtotal	**86,664**	130,187
Outside Mainland China		
– Banks	**78,739**	72,769
– Other financial institutions	**–**	18
Subtotal	**78,739**	72,787
Total	**165,403**	202,974

36. Financial liabilities at fair value through profit or loss

	2019	2018
Financial liabilities held for trading (a)	**14,888**	18,996
Financial liabilities designated at fair value through profit or loss (b)	**28,546**	25,148
Total	**43,434**	44,144

(a) Financial liabilities held for trading

	2019	2018
Precious metal relevant financial liabilities	**13,701**	17,906
Short selling securities	**1,187**	1,090
Total	**14,888**	18,996

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

	2019	2018
In Mainland China		
– Precious metal contracts with other banks	**9,217**	9,673
– Others	**9,092**	2,879
Outside Mainland China		
– Certificates of deposit issued	**767**	2,619
– Debt securities issued	**9,237**	9,977
– Others	**233**	–
Total	**28,546**	25,148

As at 31 December 2019 and 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 years ended 31 December 2019 and 2018 and as at 31 December 2019 and 2018.

37. Amounts sold under repurchase agreements

	2019	2018
Principal (a)(b)	**63,107**	78,029
Interest payable	**126**	112
Total	**63,233**	78,141

(a) Analysed by nature of counterparties

	2019	2018
In Mainland China		
– Banks	**59,383**	69,089
– Other financial institutions	**480**	1,171
Subtotal	**59,863**	70,260
Outside Mainland China		
– Banks	**1,845**	7,769
– Other financial institutions	**1,399**	–
Subtotal	**3,244**	7,769
Total	**63,107**	78,029

(b) Analysed by the type of underlying assets

	2019	2018
Debt securities		
– PRC government bonds	**30,962**	41,391
– Bonds issued by policy banks	**21,941**	21,399
– Bonds issued by commercial banks and other financial institutions	**493**	5,469
– Other debt securities	**3,337**	1,917
Subtotal	**56,733**	70,176
Discounted bills	**6,374**	7,853
Total	**63,107**	78,029

38. Deposits from customers

	2019	2018
Principal (a)	**4,844,422**	4,400,674
Interest payable	**30,559**	26,892
Total	**4,874,981**	4,427,566

(a) Analysed by nature of counterparties

	2019	2018
Corporate customers		
– Demand deposits	**1,692,068**	1,645,684
– Time deposits	**1,346,033**	1,192,037
Subtotal	**3,038,101**	2,837,721
Retail customers		
– Demand deposits	**1,171,221**	1,059,923
– Time deposits	**635,100**	503,030
Subtotal	**1,806,321**	1,562,953
Total	**4,844,422**	4,400,674

(b) The deposits taken from customers as collateral or for the purpose of guarantees are as follows:

	2019	2018
Guarantee for acceptance bills	**62,809**	64,919
Guarantee for loans	**29,620**	20,908
Guarantee for issuing letters of credit	**19,086**	12,974
Deposit for letters of guarantee	**26,878**	46,107
Others	**24,734**	19,054
Total	**163,127**	163,962

39. Staff welfare scheme

(a) Salaries and welfare payable

	2019			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	8,297	41,429	(38,854)	10,872
Post-employment benefits – defined contribution plans (ii)	129	3,966	(3,396)	699
Other long-term employee benefits (iii)	49	54	(36)	67
Total	8,475	45,449	(42,286)	11,638

	2018			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	7,756	39,473	(38,932)	8,297
Post-employment benefits – defined contribution plans (ii)	228	3,543	(3,642)	129
Other long-term employee benefits (iii)	36	30	(17)	49
Total	8,020	43,046	(42,591)	8,475

(i) Short-term employee benefits

	2019			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	6,112	31,232	(28,893)	8,451
Welfare expense	73	4,267	(4,271)	69
Social insurance				
– Medical insurance	38	2,358	(2,289)	107
– Injury insurance	4	26	(24)	6
– Maternity insurance	5	95	(93)	7
Housing reserve	198	2,015	(1,967)	246
Labour union and employee education expenses	1,867	1,436	(1,317)	1,986
Total	8,297	41,429	(38,854)	10,872

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(i) Short-term employee benefits *(continued)*

	2018			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	5,858	30,126	(29,872)	6,112
Welfare expense	62	3,534	(3,523)	73
Social insurance				
– Medical insurance	42	2,108	(2,112)	38
– Injury insurance	3	29	(28)	4
– Maternity insurance	4	81	(80)	5
Housing reserve	171	2,309	(2,282)	198
Labour union and employee education expenses	1,616	1,286	(1,035)	1,867
Total	7,756	39,473	(38,932)	8,297

(ii) Post-employment benefits-defined contribution plans

	2019			
	Beginning balance	**Charge for the year**	**Payment/ Transfers in the year**	**Ending balance**
Basic retirement security	**65**	**2,246**	**(2,242)**	**69**
Supplementary pension	**43**	**1,661**	**(1,094)**	**610**
Unemployment insurance	**21**	**59**	**(60)**	**20**
Total	**129**	**3,966**	**(3,396)**	**699**

	2018			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Basic retirement security	61	2,134	(2,130)	65
Supplementary pension	149	1,356	(1,462)	43
Unemployment insurance	18	53	(50)	21
Total	228	3,543	(3,642)	129

Defined contribution pension schemes

In accordance with the regulations in the PRC, the Group participates in statutory pension schemes organised by the municipal and provincial governments for its employees (endowment insurance). During the year ended 31 December 2019, the Group's contributions to the schemes are determined by local governments and vary at a range of 12% to 16% (2018: 12% to 20%) of the staff salaries.

In addition to the above statutory pension schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance) in accordance with relevant annuity policies for corporate entities in the PRC. During the year ended 31 December 2019, the Group's annual contributions to this plan are determined based on 0% to 8.33% of the staff salaries and bonuses (2018: 0% to 8.33%).

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits

	2019			
	Beginning balance	**Charge for the year**	**Payment in the year**	**Ending balance**
Cash settled share-based transactions	**49**	**54**	**(36)**	**67**

	2018			
	Beginning balance	Charge for the year	Payment in the year	Ending balance
Cash settled share-based transactions	36	30	(17)	49

As at 31 December 2019, the Group has offered 10 phases of H share Appreciation Rights Scheme to its senior management ("the Scheme"). The share appreciation rights of the Scheme vest after 2 years or 3 years from the grant date and are then exercisable within a period of 7 years or 8 years. Each of the share appreciation right is linked to one H-share.

(1) All share appreciation rights shall be settled in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised share appreciation rights at the end of 2019 (in millions)	Exercise conditions	Contract period of share appreciation rights
Share appreciation rights granted on 4 May 2012 (Phase V)	0.046	3 years after the grant date	10 years
Share appreciation rights granted on 22 May 2013 (Phase VI)	0.092	3 years after the grant date	10 years
Share appreciation rights granted on 7 Jul 2014 (Phase VII)	0.623	3 years after the grant date	10 years
Share appreciation rights granted on 22 Jul 2015 (Phase VIII)	1.058	3 years after the grant date	10 years
Share appreciation rights granted on 24 Aug 2016 (Phase IX)	1.035	3 years after the grant date	10 years
Share appreciation rights granted on 25 Aug 2017 (Phase X)	1.290	3 years after the grant date	10 years

(2) The number and weighted average exercise prices of share appreciation rights are as follows:

	2019		2018	
	Weighted average exercise price (HKD)	**Number of share appreciation rights (in million)**	Weighted average exercise price (HKD)	Number of share appreciation rights (in million)
Outstanding as at the beginning of the year	**19.00**	**5.86**	19.32	7.24
Exercised during the year	**15.02**	**(1.72)**	12.34	(0.08)
Forfeited during the year	–	–	16.06	(1.30)
Outstanding at the end of the year	**18.57**	**4.14**	19.00	5.86
Exercisable at the end of the year	**13.80**	**1.08**	14.13	0.96

The share appreciation rights outstanding at 31 December 2019 had a weighted average exercise price of HKD18.57 (2018: HKD19.00) and a weighted average remaining contractual life of 6.26 years (2018: 7.10 years).

Pursuant to the requirements set out in the Scheme, if there are any dividends distributed, capital reserve converted into shares, share split or dilution, adjustments to the exercise price will be applied.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(3) Fair value of share appreciation rights and assumptions

The fair value of services received in return for share appreciation rights granted are measured by reference to the fair value of share appreciation rights granted. The estimate of the fair value of the share appreciation rights granted is measured based on the Black-Scholes model. The contractual lives of the rights are used as an input of the model.

	2019					
	Phase V	**Phase VI**	**Phase VII**	**Phase VIII**	**Phase IX**	**Phase X**
Fair value at measurement date (in RMB)	**25.44**	**23.93**	**22.91**	**16.74**	**17.09**	**11.23**
Share price (in HKD)	**40.6**	**40.6**	**40.6**	**40.6**	**40.6**	**40.6**
Exercise price (in HKD)	**9.63**	**10.19**	**10.26**	**17.41**	**15.98**	**26.52**
Expected volatility	**26.68%**	**26.68%**	**26.68%**	**26.68%**	**26.68%**	**26.68%**
Share appreciation rights life (year)	**2.33**	**3.42**	**4.50**	**5.58**	**6.67**	**7.67**
Expected dividends rate	**3.24%**	**3.24%**	**3.24%**	**3.24%**	**3.24%**	**3.24%**
Risk-free interest rate	**1.43%**	**1.43%**	**1.43%**	**1.43%**	**1.43%**	**1.43%**

	2018					
	Phase V	Phase VI	Phase VII	Phase VIII	Phase IX	Phase X
Fair value at measurement date (in RMB)	16.06	15.04	14.51	10.19	10.70	7.20
Share price (in HKD)	29.15	29.15	29.15	29.15	29.15	29.15
Exercise price (in HKD)	10.70	11.26	11.33	18.48	17.05	27.59
Expected volatility	32.46%	32.46%	32.46%	32.46%	32.46%	32.46%
Share appreciation rights life (year)	3.33	4.42	5.50	6.58	7.67	8.67
Expected dividends rate	3.39%	3.39%	3.39%	3.39%	3.39%	3.39%
Risk-free interest rate	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share appreciation rights) and adjusted for any expected changes to future volatility based on publicly available information. Expected dividend rate is based on historical dividend rates. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share appreciation rights were granted under service conditions. The conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share appreciation rights granted.

39. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(4) The number of share appreciation rights granted to members of senior management:

	2019							
	Phase V (in thousands)	Phase VI (in thousands)	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised (in thousands)
Li Hao	–	–	–	–	–	–	–	2,131
Tang Zhi Hong	46	92	158	210	210	240	956	947
Tian Hui Yu	–	–	225	300	300	330	1,155	75
Liu Jian Jun	–	–	53	105	158	240	556	314
Wang Liang	–	–	38	157	210	240	645	165
Xu Shi Qing	–	–	150	180	–	–	330	–
Xiong Liang Jun	–	–	–	105	157	240	502	158
Total	46	92	624	1,057	1,035	1,290	4,144	3,790

	2018							
	Phase V (in thousands)	Phase VI (in thousands)	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Total (in thousands)	Exercised (in thousands)
Li Hao	50	100	180	240	270	300	1,140	991
Tang Zhi Hong	46	92	158	210	210	240	956	947
Tian Hui Yu	–	–	225	300	300	330	1,155	75
Liu Jian Jun	–	–	158	210	210	240	818	52
Wang Liang	–	–	150	210	210	240	810	–
Xu Shi Qing	–	–	150	180	–	–	330	–
Xiong Liang Jun	–	–	–	210	210	240	660	–
Total	96	192	1,021	1,560	1,410	1,590	5,869	2,065

Note: In 2019, senior management had exercised 1.72 million shares of appreciation rights (2018: 0.75 million) and the weighted average exercise price is HKD15.02 (2018: HKD11.33).

(b) Post-employment benefits – defined benefit plan

The Group's subsidiary CMB WLB operates a defined benefit plan (the "plan") for the staff, which includes a defined benefit scheme and a defined benefit pension section. The contributions of the plan are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the plan. The plan provides benefits based on members' final salary. The costs are solely funded by CMB WLB.

The latest actuarial valuation of the plan was performed in accordance with IAS 19 issued by the IASB as at 31 December 2019 by Willis Towers Watson Limited, a professional actuarial firm. The present values of the defined benefit obligation and current service cost of the plan are calculated based on the projected unit credit method. At the valuation date, the plan had a funding level of 106% (2018: 110%).

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The amounts recognised in the statement of financial position as at 31 December 2019 are analysed as follows:

	2019	2018
Fair value of the plan assets	385	357
Present value of the funded defined benefit obligation	(363)	(326)
Net asset recognised in the statement of financial position	22	31

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the plan is expected to be paid in 2019.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2019 and 2018.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2019	2018
Current service cost	(11)	(10)
Net interest income	1	2
Net expense for the year included in retirement benefit costs	(10)	(8)

The actual profit on the plan assets for the year ended 31 December 2019 was RMB47 million (2018: actual loss RMB39 million).

The movements in the defined benefit obligation during the year are as follows:

	2019	2018
Present value of obligation at 1 January	326	285
Current service cost	11	10
Interest cost	6	5
Actual benefits paid	(26)	(18)
Actuarial profit or losses due to liability experience	10	10
Actuarial profit or losses due to financial assumption changes	29	11
Actuarial gain or losses due to demographic assumption changes	–	7
Exchange difference	7	16
Actual obligation at 31 December	363	326

The movements in the fair value of the plan assets during the year are as follows:

	2019	2018
Fair value of the plan assets at 1 January	357	394
Interest income	7	7
Expected return on plan assets	40	(46)
Actual benefits paid	(26)	(18)
Exchange difference	7	20
Fair value of the plan assets at 31 December	385	357

39. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The major categories of the plan assets are as follows:

	2019		2018	
	Amount	%	Amount	%
Equities	**238**	**61.8**	216	60.6
Bonds	**73**	**19.0**	63	17.6
Cash	**74**	**19.2**	78	21.8
Total	**385**	**100.0**	357	100.0

Deposit with the Bank included in the amount of the plan assets was RMB57 million (2018: RMB56 million).

The principal actuarial assumptions adopted in the valuation are as follows:

	2019 %	2018 %
Discount rate		
– Defined benefit scheme	**1.6**	1.9
– Defined benefit pension scheme	**1.7**	1.8
Long-term average rate of salary increase for the plan	**6.0**	5.0
Pension increase rate for the defined benefit pension plan	**–**	–

As at 31 December 2018 and 2019, there is no significant change of the amount in the liabilities of the retirement benefit plan due to the above mentioned actuarial assumptions.

40. Tax payable

	2019	2018
Corporate income tax	**13,909**	16,229
Value added tax	**3,057**	3,137
Others	**2,103**	1,045
Total	**19,069**	20,411

41. Contract liabilities

	2019	2018
Credit card points	**5,262**	4,799
Other deferred fee and commission income	**1,226**	808
Total	**6,488**	5,607

As at 1 January 2018, contract liabilities amounted to RMB4,244 million.

42. Provisions

	2019	2018
Expected credit loss provisions	**5,116**	4,565
Other	**993**	1,100
Total	**6,109**	5,665

The expected credit loss provisions for loan commitments and financial guarantee contracts by stages are as follows:

	2019			
	–Stage 1 (12-month ECL)	**–Stage 2 (Lifetime ECL-not credit-impaired)**	**–Stage 3 (Lifetime ECL-credit impaired)**	**Total**
Expected credit loss provisions	**3,396**	**1,307**	**413**	**5,116**

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

43. Debt securities issued

	Notes	2019	2018
Subordinated notes issued	(a)	**34,469**	45,714
Long-term debt securities issued	(b)	**165,602**	104,483
Negotiable interbank certificates of deposit		**349,284**	245,406
Certificates of deposit issued		**26,007**	26,724
Interest payable		**2,829**	2,599
Total		**578,191**	424,926

43. Debt securities issued *(continued)*

(a) Subordinated notes issued

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

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	180 months	28 Dec 2012	5.20	RMB11,700	11,693	–	–	–	11,693
Fixed rate bond (note)	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	–	–	–	19,993
Total					42,971	–	15	(11,300)	31,686

Note: The Bank redeemed the Tier-2 capital bond amounted to RMB11,300 million as of 21 April 2019.

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 difference (RMB in million)	Repayment during the year (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	–	40	–	2,783
Total					2,743	–	40	–	2,783

* T represents the 5 years US Treasury rate.

43. 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 (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	22 May 2017	4.20	RMB18,000	17,984	–	7	–	17,991
Medium term note	36 months	12 Jun 2017	3M Libor+0.825	USD800	5,496	–	5	78	5,579
Fixed rate bond	36 months	14 Sep 2017	4.30	RMB12,000	11,990	–	4	–	11,994
Fixed rate bond	36 months	17 Aug 2018	3.95	RMB30,000	29,964	–	9	–	29,973
Medium term note	36 months	12 Jun 2019	0.25	EUR300	–	2,337	(6)	10	2,341
Medium term note	36 months	19 Jun 2019	3M Libor+0.74	USD600	–	4,170	(10)	13	4,173
Fixed rate bond	36 months	5 Jul 2019	3.45	RMB30,000	–	29,987	3	–	29,990
Fixed rate bond	36 months	4 Sep 2019	2.64	USD60	–	417	(1)	2	418
Fixed rate bond	36 months	24 Sep 2019	3.33	RMB20,000	–	19,993	1	–	19,994
Total					65,434	56,904	12	103	122,453

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 year (RMB in million)	Discount or premium amortisation (RMB in million)	Exchange difference (RMB in million)	Repayment during the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	60 months	11 Aug 2014	3.25	USD500	3,431	–	1	51	(3,483)	–
Fixed rate bond	36 months	11 Mar 2016	3.27	RMB3,800	3,798	–	2	–	(3,800)	–
Fixed rate bond	36 months	29 Nov 2016	2.63	USD300	2,056	–	3	16	(2,075)	–
Fixed rate bond	60 months	29 Nov 2016	3.25	USD900	6,157	–	7	104	–	6,268
Leased asset backed securities	31 months	21 Feb 2017	4.3/4.5/4.73	RMB4,930	706	–	(3)	–	(703)	–
Fixed rate bond	36 months	15 Mar 2017	4.5	RMB4,000	3,992	–	7	–	–	3,999
Fixed rate bond (note (i))	36 months	5 Jul 2017	4.80	RMB1,500	1,497	–	2	–	–	1,499
Fixed rate bond (note (ii))	36 months	20 Jul 2017	4.89	RMB2,500	2,496	–	3	–	–	2,499
Fixed rate bond	36 months	3 Aug 2017	4.6	RMB2,000	1,997	–	2	–	–	1,999
Fixed rate bond (note (iii))	36 months	14 Mar 2018	5.24	RMB4,000	3,989	–	6	–	–	3,995
Fixed rate bond (note (iv))	36 months	9 May 2018	4.80	RMB4,000	3,989	–	6	–	–	3,995
Fixed rate bond	36 months	16 Jul 2018	4.50	RMB4,000	3,989	–	5	–	–	3,994
Fixed rate bond (note (v))	36 months	14 Mar 2019	3.50	RMB1,500	–	1,495	2	–	–	1,497
Fixed rate bond (note (vi))	60 months	14 Mar 2019	4.00	RMB500	–	499	–	–	–	499
Fixed rate bond	36 months	28 May 2019	3.68	RMB3,000	–	2,991	2	–	–	2,993
Fixed rate bond (note (vii))	60 months	25 Jun 2019	3.12	USD900	–	6,227	(50)	54	–	6,231
Fixed rate bond (note (vii))	120 months	25 Jun 2019	3.69	USD100	–	692	(6)	6	–	692
Fixed rate bond	36 months	17 Jul 2019	3.60	RMB3,000	–	2,991	1	–	–	2,992
Fixed rate bond	12 months	22 Nov 2019	2.72	USD50	–	349	–	–	–	349
Total					38,097	15,244	(10)	231	(10,061)	43,501

43. 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: *(continued)*

Notes:

(i) The Bank holds financial bonds issued by CMBFLC amounted to RMB300 million as of 31 December 2019 (31 December 2018: RMB300 million).

(ii) The Bank holds financial bonds issued by CMBFLC amounted to RMB200 million as of 31 December 2019 (31 December 2018: RMB200 million).

(iii) The Bank holds financial bonds issued by CMBIL amounted to RMB260 million as of 31 December 2019 (31 December 2018: RMB260 million).

(iv) The Bank holds financial bonds issued by CMBIL amounted to RMB140 million as of 31 December 2019 (31 December 2018: RMB140 million).

(v) The Bank holds financial bonds issued by CMBIL amounted to RMB300 million as of 31 December 2019 (31 December 2018: Nil).

(vi) The Bank holds financial bonds issued by CMBIL amounted to RMB100 million as of 31 December 2019 (31 December 2018: Nil).

(vii) The Bank holds financial bonds issued by CMBIL amounted to USD50 million as of 31 December 2019, equivalent to RMB348 million (31 December 2018: Nil).

(viii) The Bank holds financial bonds issued by CMBIL amounted to USD43 million as of 31 December 2019, equivalent to RMB300 million (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 year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the year (RMB in million)	Exchange difference (RMB in million)	Ending balance (RMB in million)
Fixed rate bond	36 months	9 Jul 2018	3.72	USD300	2,060	–	–	–	30	2,090
Total					2,060	–	–	–	30	2,090

44. Other liabilities

	2019	2018
Clearing and settlement accounts	**9,971**	7,661
Salary risk allowances (note)	**22,000**	16,000
Insurance liabilities	**1,931**	1,832
Collecting on behalf of customers	**2,046**	2,532
Continuing involvement liability	**987**	–
Cheques and remittances returned	**49**	70
Others	**40,194**	41,223
Total	**77,178**	69,318

Note: Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances.

45. Share capital

By type of shares:

	2019 and 2018 No. of shares (in million)
Listed shares	
– A-Shares	20,629
– H-Shares	4,591
Total	25,220

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

	Capital	
	No. of shares (in million)	Amount
At 1 January 2019 and at 31 December 2019	**25,220**	**25,220**

46. Preference shares

(a) Preference Shares

	31 December 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

(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, until five years or longer since the issuance ending date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the 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 22 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.

46. Preference shares *(continued)*

(a) Preference Shares *(continued)*

(ii) *(continued)*

The Domestic Preference Shares have no maturity date. However, until five years or longer since the issuance ending date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the 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 obligations of the Securities Law, the CSRC and Hong Kong's laws and regulations such as making provisional reports or announcements in accordance with relevant regulatory requirements.

(b) Equity Attributed to Different Types of Shareholders

	At 31 December 2019	At 31 December 2018
Equity attributed to shareholders of the Bank	**611,301**	540,118
– Equity attributed to ordinary shareholders of the Bank	**577,236**	506,053
– Equity attributed to other equity holders of the Bank	**34,065**	34,065
Equity attributed to non-controlling interests	**6,406**	3,487
– Equity attributed to non-controlling holders of ordinary shares	**2,427**	2,329
– Equity attributed to non-controlling holders of other equity instrument (note 62)	**3,979**	1,158

47. Capital reserve

Capital reserve primarily represents share premium of the Bank and can be used to issue shares with the shareholders' approval.

	2019	2018
At 1 January and 31 December	**67,523**	67,523

48. Investment revaluation reserve

	2019	2018
Debt instruments measured at fair value through other comprehensive income: investment revaluation reserve	**5,954**	3,688
Fair value gain on equity instruments measured at fair value through other comprehensive income	**2,609**	1,857
Remeasurement of defined benefit liability	**30**	29
Equity-accounted investees share of other comprehensive income	**326**	(42)
Total	**8,919**	5,532

49. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedge in Note 4(5).

50. Surplus reserve

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF") and is provided at 10% of the audited profit after tax. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

	2019	2018
At 1 January	**53,682**	46,159
Provided for the year	**8,609**	7,523
At 31 December	**62,291**	53,682

51. Regulatory general reserve

Pursuant to relevant regulatory notices, the Bank and the Group's financial services subsidiaries are required to set aside a general reserve from profit after tax up to a certain percentage of the ending balance of gross risk-bearing assets to cover potential losses. The Bank and the Group's financial services subsidiaries have complied with the requirements as of 31 December 2019.

	2019	2018
At 1 January	**78,542**	70,921
Provided for the year	**11,609**	7,621
At 31 December	**90,151**	78,542

52. Profit appropriations

(a) Dividends approved/declared by shareholders

	2019	2018
Dividends in 2018, approved and to be declared RMB0.94 per shares	**23,707**	–
Dividends in 2017, approved and to be declared RMB0.84 per shares	–	21,185

(b) Proposed profit appropriations

	2019	2018
Statutory surplus reserve	**8,609**	7,523
Regulatory general reserve	**11,609**	7,621
Dividends		
– cash dividend: RMB1.20 per shares (2018: RMB0.94 per shares)	**30,264**	23,707
Total	**50,482**	38,851

2019 dividends profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 20 March 2020 and will be submitted to the 2019 annual general meeting for approval.

53. Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of operations outside Mainland China.

54. The bank's statement of financial position and changes in the bank's reserves

	2019	2018
Assets		
Cash	**14,356**	14,997
Precious metals	**4,006**	6,573
Balances with central banks	**549,969**	474,380
Balances with banks and other financial institutions	**73,472**	68,501
Placements with banks and other financial institutions	**304,396**	299,981
Amounts held under resale agreements	**103,740**	199,555
Loans and advances to customers	**3,968,513**	3,471,874
Financial assets at fair value through profit or loss	**378,242**	315,000
Derivative financial assets	**23,769**	33,582
Debt investments at amortised cost	**920,575**	915,410
Debt investments at fair value through other comprehensive income	**416,181**	380,971
Equity investments designated at fair value through other comprehensive income	**5,430**	3,465
Investments in subsidiaries	**49,495**	43,901
Interest in joint ventures	**6,091**	4,797
Investment properties	**1,203**	1,262
Property and equipment	**25,565**	23,169
Right-of-use assets (note)	**19,078**	N/A
Intangible assets	**3,752**	8,157
Deferred tax assets	**63,663**	56,866
Other assets	**28,736**	25,174
Total assets	**6,960,232**	6,347,615
Liabilities		
Borrowing from central banks	**358,728**	405,314
Deposits from banks and other financial institutions	**541,745**	452,305
Placements from banks and other financial institutions	**73,880**	116,072
Financial liabilities at fair value through profit or loss	**32,922**	40,175
Derivative financial liabilities	**22,911**	35,795
Amounts sold under repurchase agreements	**55,455**	77,064
Deposits from customers	**4,660,232**	4,237,430
Salaries and welfare payable	**9,581**	6,697
Tax payable	**17,655**	19,512
Contract liabilities	**6,488**	5,607
Lease liabilities (note)	**13,632**	N/A
Provision	**6,061**	5,638
Debt securities issued	**527,986**	375,625
Other liabilities	**54,604**	55,918
Total liabilities	**6,381,880**	5,833,152
Equity		
Share capital	**25,220**	25,220
Other equity instruments – Preference Shares	**34,065**	34,065
Capital reserve	**76,681**	76,681
Investment revaluation reserve	**8,676**	5,540
Hedging reserve	**(26)**	(27)
Surplus reserve	**62,291**	53,682
Regulatory general reserve	**85,820**	75,818
Retained profits	**255,155**	219,622
Proposed profit appropriations	**30,264**	23,707
Exchange reserve	**206**	155
Total equity	**578,352**	514,463
Total equity and liabilities	**6,960,232**	6,347,615

Note: The Bank has applied IFRS 16 since 1 January 2019 in accordance with transitional provision stated in Note 3. Lease liabilities and right-of-use assets amounted to RMB12,136 million were recognised on initial application of IFRS 16. In addition, right-of-use assets were adjusted by including land use rights amounted to RMB5,212 million, prepaid lease payments under other assets amounted to RMB988 million and deducting accrued rental payables amounted to RMB95 million.

54. The bank's statement of financial position and changes in the bank's reserves *(continued)*

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's reserves are as follows.

	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
At 1 January 2019	25,220	34,065	76,681	5,540	(27)	53,682	75,818	219,622	23,707	155	514,463
Changes in equity for the year	–	–	–	3,136	1	8,609	10,002	35,533	6,557	51	63,889
Net profit for the year	–	–	–	–	–	–	–	86,085	–	–	86,085
Other comprehensive income for the year	–	–	–	3,129	1	–	–	–	–	51	3,181
Total comprehensive income for the year	–	–	–	3,129	1	–	–	86,085	–	51	89,266
Profit appropriations	–	–	–	–	–	8,609	10,002	(50,545)	6,557	–	(25,377)
Appropriations to statutory surplus reserve	–	–	–	–	–	8,609	–	(8,609)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	–	10,002	(10,002)	–	–	–
Dividends paid for the year 2018	–	–	–	–	–	–	–	–	(23,707)	–	(23,707)
Proposed dividends for the year 2019	–	–	–	–	–	–	–	(30,264)	30,264	–	–
Dividends paid for preference shares	–	–	–	–	–	–	–	(1,670)	–	–	(1,670)
Transfers within equity upon disposal of equity Instruments designated at FVTOCI	–	–	–	7	–	–	–	(7)	–	–	–
At 31 December 2019	25,220	34,065	76,681	8,676	(26)	62,291	85,820	255,155	30,264	206	578,352

	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
At 1 January 2018	25,220	34,065	76,681	(1,603)	(86)	46,159	69,790	183,307	21,185	(78)	454,640
Changes in equity for the year	–	–	–	7,143	59	7,523	6,028	36,315	2,522	233	59,823
Net profit for the year	–	–	–	–	–	–	–	75,232	–	–	75,232
Other comprehensive income for the year	–	–	–	7,143	59	–	–	–	–	233	7,435
Total comprehensive income for the year	–	–	–	7,143	59	–	–	75,232	–	233	82,667
Profit appropriations	–	–	–	–	–	7,523	6,028	(38,917)	2,522	–	(22,844)
Appropriations to statutory surplus reserve	–	–	–	–	–	7,523	–	(7,523)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	–	6,028	(6,028)	–	–	–
Dividends paid for the year 2017	–	–	–	–	–	–	–	–	(21,185)	–	(21,185)
Proposed dividends for the year 2018	–	–	–	–	–	–	–	(23,707)	23,707	–	–
Dividends paid for preference shares	–	–	–	–	–	–	–	(1,659)	–	–	(1,659)
At 31 December 2018	25,220	34,065	76,681	5,540	(27)	53,682	75,818	219,622	23,707	155	514,463

55. Notes to consolidated cash flow statements

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

	2019	2018
Cash and Balances with central banks	**90,383**	52,302
Balance with banks and other financial institutions	**61,260**	84,517
Placements with banks and other financial institutions	**227,606**	200,326
Amounts held under resale agreements	**103,633**	191,923
Debt securities investments	**106,793**	14,615
Total	**589,675**	543,683

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were classified in the Group's consolidated statement of cash flows as cash flows from financing activities

	Negotiable interbank certificates of deposit	Certificates of deposit issued	Debt securities issued	Interest payable	Dividend payable	Other financial liabilities	Lease liabilities	Total
At 1 January 2019	245,406	29,343	160,174	2,599	26	2,879	12,807	453,234
Cash changes:								
Proceeds from the issue	455,128	27,631	70,607	–	–	6,509	–	559,875
Repayment	(351,235)	(30,921)	(22,363)	–	–	(185)	(4,302)	(409,006)
Interest/dividend paid	(9,921)	–	–	(7,416)	(25,673)	–	–	(43,010)
Non-cash changes:								
Acquisition of lease liabilities	–	–	–	–	–	–	5,317	5,317
Accrued interest	–	–	–	7,646	–	–	557	8,203
Dividend declared	–	–	–	–	25,673	–	–	25,673
Discount or premium amortisation	9,897	70	18	–	–	–	–	9,985
Fair value adjustments	–	16	90	–	–	105	–	211
Foreign exchange	9	635	745	–	–	17	–	1,406
At 31 December 2019	349,284	26,774	209,271	2,829	26	9,325	14,379	611,888

	Negotiable interbank certificates of deposit	Certificates of deposit issued	Debt securities issued	Interest payable	Dividend payable	Other financial liabilities	Total
At 1 January 2018	178,189	24,120	101,592	1,820	26	–	305,747
Cash changes:							
Proceeds from the issue	407,328	32,300	73,029	–	–	2,921	515,578
Repayment	(342,201)	(28,389)	(15,590)	–	–	(431)	(386,611)
Interest/dividend paid	(6,659)	–	–	(5,154)	(22,912)	–	(34,725)
Non-cash changes:							
Accrued interest	–	–	–	5,933	–	–	5,933
Dividend declared	–	–	–	–	22,912	–	22,912
Discount or premium amortisation	8,588	56	(47)	–	–	–	8,597
fair value adjustments	–	10	4	–	–	389	403
Foreign exchange	161	1,246	1,186	–	–	–	2,593
At 31 December 2018	245,406	29,343	160,174	2,599	26	2,879	440,427

(c) Significant non-cash transactions

There are no significant non-cash transactions during the year.

56. Operating segments

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

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

(1) Wholesale finance business

The financial services for the corporate clients, sovereigns, and financial institutions include: 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.

(2) 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.

(3) Other Business

Other business includes: property leasing and businesses operated by subsidiaries other than CMB WLB, and associates and joint ventures. None of these segments meets any of the quantitative thresholds so far for segments division.

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 according to the relevant factors.

As listed in Note (4), 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 2019 and 2018. Internal transactions are conducted at fair value.

56. Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale financial business		Retail financial business		Other business		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
External net interest income	**18,083**	24,466	**116,421**	100,299	**38,586**	35,619	**173,090**	160,384
Internal net interest income/(expense)	**57,697**	52,553	**(19,656)**	(17,681)	**(38,041)**	(34,872)	**–**	–
Net interest income	**75,780**	77,019	**96,765**	82,618	**545**	747	**173,090**	160,384
Net fee and commission income	**21,246**	20,095	**46,724**	42,700	**3,523**	3,685	**71,493**	66,480
Other net income	**14,806**	12,181	**1,227**	525	**7,449**	7,565	**23,482**	20,271
Operating income	**111,832**	109,295	**144,716**	125,843	**11,517**	11,997	**268,065**	247,135
Operating expenses								
– Property, equipment and investment properties depreciation	**(1,578)**	(1,527)	**(2,368)**	(2,255)	**(2,433)**	(1,488)	**(6,379)**	(5,270)
– Right-of-use assets depreciation	**(1,730)**	N/A	**(2,473)**	N/A	**(161)**	N/A	**(4,364)**	N/A
– Others	**(31,451)**	(29,683)	**(45,547)**	(43,803)	**(3,756)**	(2,354)	**(80,754)**	(75,840)
Reportable segment profit before impairment losses	**77,073**	78,085	**94,328**	79,785	**5,167**	8,155	**176,568**	166,025
Expected credit losses and impairment losses on other assets	**(30,642)**	(38,171)	**(27,911)**	(21,522)	**(2,606)**	(1,144)	**(61,159)**	(60,837)
Share of profit of associates and joint ventures	**–**	–	**–**	–	**1,723**	1,309	**1,723**	1,309
Reportable segment profit before tax	**46,431**	39,914	**66,417**	58,263	**4,284**	8,320	**117,132**	106,497
Capital expenditure (note (i))	**2,979**	3,291	**4,275**	4,858	**15,158**	9,256	**22,412**	17,405

	Wholesale financial business		Retail financial business		Other business		Total	
	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018	**31 December 2019**	31 December 2018	**31 December 2019**	31 December 2018
Reportable segment assets	**3,194,551**	2,831,765	**2,307,439**	2,045,530	**1,831,826**	1,794,697	**7,333,816**	6,671,992
Reportable segment liabilities	**3,737,661**	3,526,129	**1,846,913**	1,598,208	**1,147,923**	1,007,225	**6,732,497**	6,131,562
Interest in associates and joint ventures	**–**	–	**–**	–	**10,784**	8,871	**10,784**	8,871

Note:

(i) Capital expenditure represents the amount incurred for acquiring long-term segment assets.

56. Operating segments *(continued)*

(b) Reconciliations of reportable segment revenue, profit or loss, assets, liabilities and other material items

	For the year ended 31 December	
	2019	2018
Total operating income for reportable segments	**268,065**	247,135
Total profit before income tax for reportable segments	**117,132**	106,497

	31 December 2019	31 December 2018
Assets		
Total assets for reportable segments	**7,333,816**	6,671,992
Goodwill	**9,954**	9,954
Intangible assets	**708**	735
Deferred tax assets	**65,151**	58,374
Other unallocated assets	**7,611**	4,674
Consolidated total assets	**7,417,240**	6,745,729
Liabilities		
Total liabilities for reportable segments	**6,732,497**	6,131,562
Tax payable	**19,069**	20,411
Other unallocated liabilities	**47,967**	50,151
Consolidated total liabilities	**6,799,533**	6,202,124

56. Operating segments *(continued)*

(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, Shenzhen 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.

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

– "Headquarter" refers to the Group headquarter, special purpose vehicles at the branch level which are directly under the headquarter, associates and joint ventures, including the headquarter 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 London, New York, and Taipei; and

– "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including CMB WLB, CMBICHC, CMBFLC, CMFM,CMBWM, etc.

	Total assets		Total liabilities		Non-current assets		Profit before tax		Operating income	
Geographical information	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2018
Headquarter	3,306,057	3,129,174	2,856,659	2,739,929	37,821	34,056	16,363	12,017	111,034	91,577
Yangtze River Delta region	912,227	777,607	893,454	759,258	6,177	2,948	24,634	24,040	33,895	34,386
Bohai Rim region	582,344	526,143	570,647	513,813	4,701	2,015	15,809	16,383	27,124	26,946
Pearl River Delta and West Coast region	795,968	693,830	778,866	679,961	4,556	2,137	21,657	19,279	31,591	31,936
Northeast region	150,072	144,367	147,584	146,060	2,006	1,125	3,271	(1,320)	5,998	6,349
Central region	457,081	389,081	449,597	380,025	4,344	2,524	10,282	11,930	16,995	16,925
Western region	444,856	380,152	436,575	371,913	4,692	2,389	10,880	10,790	17,361	17,491
Overseas	238,988	240,080	233,402	234,741	1,344	145	2,669	3,041	3,731	4,285
Subsidiaries	529,647	465,295	432,749	376,424	48,005	38,903	11,567	10,337	20,336	17,240
Total	7,417,240	6,745,729	6,799,533	6,202,124	113,646	86,242	117,132	106,497	268,065	247,135

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

57. Assets pledged as security

The following assets have been pledged as collateral for borrowing from central banks liabilities under repurchase arrangements:

	2019	2018
Borrowing from central banks	**359,175**	405,314
Amounts sold under repurchase agreements	**63,233**	78,141
Subtotal	**422,408**	483,455
Assets pledged		
– Financial assets at fair value through profit or loss	**10,908**	18,925
– Debt investments at amortised cost	**229,202**	280,262
– Debt investments at fair value through other comprehensive income	**21,907**	71,196
– Other assets	**90,636**	109,757
– Loans and advances to customers	**190,363**	–
Total	**543,016**	480,140

The transactions under repurchase agreements are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

58. Contingent liabilities and commitments

(a) Credit commitments

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

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

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

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL- not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Irrevocable guarantees	200,021	1,129	277	201,427
Of which: Financial guarantees	101,477	951	3	102,431
Non-financial guarantees	98,544	178	274	98,996
Irrevocable letters of credit	80,354	788	56	81,198
Bills of acceptances	269,055	3,630	77	272,762
Irrevocable loan commitments	187,404	334	284	188,022
– with an original maturity within 1 year (inclusive)	100,090	143	71	100,304
– with an original maturity over 1 year	87,314	191	213	87,718
Credit card commitments	954,555	6,130	100	960,785
Others	75,119	–	–	75,119
Total	1,766,508	12,011	794	1,779,313

58. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL- not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
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 31 December 2019, the Group's irrevocable letters of credit includes sight letters of credit of RMB9,368 million (31 December 2018: RMB8,679 million), usance letters of credit of RMB2,068 million (31 December 2018: RMB5,640 million), other commitments of RMB69,762 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.

These contingent liabilities and commitments have off-balance sheet credit risk. Before the commitments are fulfilled or expired, management assesses and makes allowances for expected credit 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 RMB2,829,535 million at 31 December 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 customers. As a result, such balances are not included in the above contingent liabilities and commitments.

	2019	2018
Credit risk weighted amounts of contingent liabilities and commitments	**444,075**	373,397

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

58. Contingent liabilities and commitments *(continued)*

(b) Capital commitments

Authorised capital commitments were as follows:

	2019	2018
– Contracted for	**49,045**	10,067
– Authorised but not contracted for	**1,639**	394
Total	**50,684**	10,461

(c) Outstanding litigations

At 31 December 2019, the Group was a defendant in certain outstanding litigations with gross claims of RMB778 million (2018: RMB515 million) arising from its banking activities. The Group considers that no material losses would be incurred by the Group as a result of these outstanding litigations and therefore no provision has been made in the consolidated financial statements.

(d) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to make advances to bond holders 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:

	2019	2018
Redemption obligations	**27,363**	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.

59. 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 through the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

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

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

	2019	2018
Entrusted loans	**320,404**	417,263
Entrusted funds	**(320,404)**	(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 received from customer for wealth management business that yet to be 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:

	2019	2018
Funds received from customers under wealth management services	**2,098,944**	1,851,964

Notes: Funds received from customers under wealth management services are the funds received from customers under unconsolidated non-principal-guaranteed wealth management services.

60. Risk management

(a) Credit risk

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

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

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

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

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

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

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

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

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

Analysis of loans and advances by industry and loan portfolio are stated in Note 22.

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(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.

(ii) Significant increase in credit risk

As describe in Note 4, the Group recognises lifetime ECL if there are significant increases in credit risk.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument and other items as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers an actual or expected significant deterioration in the financial instrument's internal credit risk rating (Note 60(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 mention; 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 mention; 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 mention; 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.

60. 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 groups, identifies macro indicators related to credit risks, and establishes regression models.

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

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 optimistic, neutral and pessimistic 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.

(v) Groupings based on shared risk characteristics

The Group divides the primary business into wholesale business, retail business and credit card business. The model is grouped based on shared risk characteristics, and the primary grouping reference indicators include scale, business type and collateral type.

(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 irrevocable contract amount of the off balance sheet items disclosed in Note 58(a). At 31 December 2019, the amount of the Group's maximum credit risk exposure is RMB8,997,378 million (2018: RMB8,134,428 million).

(vii) Renegotiated loans and advances to customers

The carrying amount of loans and advances that were impaired and the terms been renegotiated was RMB25,022 million as at 31 December 2019 (31 December 2018: RMB22,766 million).

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(viii) Credit quality of debt investments

At the end of the reporting period, the analysis of the credit quality of debt investments by designated external credit assessment institution, Standard & Poor's, is as follows:

	2019	2018
Impaired gross amount of debt investments	851	968
Impairment allowances	(571)	(455)
Subtotal	280	513
Neither overdue nor impaired		
AAA	348,673	296,427
AA- to AA+	50,791	70,452
A- to A+	656,976	597,389
Lower than A-	20,972	27,726
Unrated	295,750	214,306
Impairment allowances	(3,965)	(3,575)
Subtotal	1,369,197	1,202,725
Total	1,369,477	1,203,238

Note: Bonds issued by the governments, central banks and policy banks held by the Group amounted to RMB1,099,430 million (2018: RMB932,751 million) are included.

(ix) Collateral

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	2019	2018
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	8,495	20,618

(x) Movements of loans and advances and debt investments measured at amortised cost

Loans and advances measured at amortised cost:

	2019			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	3,610,711	90,942	53,611	3,755,264
Net changes for the year	505,432	(8,476)	752	497,708
Transfer to				
– Stage 1	26,138	(26,034)	(104)	–
– Stage 2	(39,048)	40,213	(1,165)	–
– Stage 3	(15,168)	(16,504)	31,672	–
Write-offs	–	–	(32,201)	(32,201)
Balance as at the end of the year	4,088,065	80,141	52,565	4,220,771

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(x) Movements of loans and advances and debt investments measured at amortised cost *(continued)*

Loans and advances measured at amortised cost: *(continued)*

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)	Total
Balance as at the beginning of the year	3,316,816	70,498	57,848	3,445,162
Net changes for the year	343,854	(6,173)	(1,382)	336,299
Transfer to				
– Stage 1	9,422	(9,296)	(126)	–
– Stage 2	(46,231)	46,633	(402)	–
– Stage 3	(13,150)	(10,720)	23,870	–
Write-offs	–	–	(26,197)	(26,197)
Balance as at the end of the year	3,610,711	90,942	53,611	3,755,264

Debt investments at amortised cost:

	2019			
	–Stage 1 (12-month ECL)	**–Stage 2 (Lifetime ECL – not credit-impaired)**	**–Stage 3 (Lifetime ECL-credit impaired)**	**Total**
Balance as at the beginning of the year	**906,028**	**1,037**	**4,283**	**911,348**
Net changes for the year	**10,293**	**(456)**	**282**	**10,119**
Transfer to				
– Stage 1	**3**	**(3)**	**–**	**–**
– Stage 2	**(9)**	**9**	**–**	**–**
– Stage 3	**(109)**	**(7)**	**116**	**–**
Balance as at the end of the year	**916,206**	**580**	**4,681**	**921,467**

	2018			
	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL – not credit-impaired)	–Stage 3 (Lifetime ECL – credit impaired)	Total
Balance as at the beginning of the year	930,062	264	3,425	933,751
Net changes for the year	(23,449)	873	173	(22,403)
Transfer to				
– Stage 1	83	(72)	(11)	–
– Stage 2	(66)	70	(4)	–
– Stage 3	(602)	(98)	700	–
Balance as at the end of the year	906,028	1,037	4,283	911,348

60. Risk management *(continued)*

(a) Credit risk *(continued)*

(xi) Credit quality of financial instruments

The staging of credit risk of loans and advances to customers and debt investments at amortised cost are disclosed in note 22 and note 23(b) respectively, the staging of credit risk of other financial instruments are as follows:

	31 December 2019							
	Balance				Expected credit loss			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL – not credit-impaired)	Stage 3 (Lifetime ECL-credit impaired)	Total	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL – not credit-impaired)	Stage 3 (Lifetime ECL-credit impaired)	Total
Cash and Balances with central banks	567,613	–	–	567,613	–	–	–	–
Balances with banks and other financial institutions	106,295	–	11	106,306	(361)	–	(11)	(372)
Placements with banks and other financial institutions	306,656	–	–	306,656	(338)	–	–	(338)
Amounts held under resale agreements	109,153	–	200	109,353	(196)	–	(200)	(396)
Debt investments at fair value through other comprehensive income	472,112	48	426	472,586	(1,667)	(5)	(928)	(2,600)

	31 December 2018							
	Balance				Expected credit loss			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL – not credit-impaired)	Stage 3 (Lifetime ECL-credit impaired)	Total	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL – not credit-impaired)	Stage 3 (Lifetime ECL-credit impaired)	Total
Cash and Balances with central banks	493,135	–	–	493,135	–	–	–	–
Balances with banks and other financial institutions	100,011	–	11	100,022	(160)	–	(11)	(171)
Placements with banks and other financial institutions	312,559	–	–	312,559	(405)	–	–	(405)
Amounts held under resale agreements	199,718	–	200	199,918	(537)	–	(200)	(737)
Debt investments at fair value through other comprehensive income	414,122	53	516	414,691	(1,089)	(39)	(769)	(1,897)

Notes: The balance of the financial instrument disclosed above does not include interest receivable, and most of the corresponding interest receivable is stage 1.

During the years ended 31 December 2019 and 2018, there were no significant transfers of financial assets disclosed above between different stages.

60. 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 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) 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.

(1) Trading book

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

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

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(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.

Assets and liabilities by original currency are shown as follows:

	2019						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and Balances with central banks	510,981	48,658	4,633	3,341	567,613	6,985	5,178
Amounts due from banks and other financial institutions	377,581	115,486	16,115	12,027	521,209	16,578	18,013
Loans and advances to customers	3,887,465	204,764	135,626	40,074	4,267,929	29,394	151,605
Investments (including derivatives)	1,665,629	86,169	43,247	13,585	1,808,630	12,369	48,343
Other assets	180,113	54,855	14,870	2,021	251,859	7,876	16,621
Total	6,621,769	509,932	214,491	71,048	7,417,240	73,202	239,760
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,010,944	105,451	7,928	14,391	1,138,714	15,137	8,861
Deposits from customers	4,360,070	288,454	163,251	32,647	4,844,422	41,408	182,485
Financial liabilities at fair value through profit or loss (including derivatives)	40,989	24,369	1,247	29	66,634	3,497	1,394
Debt securities issued	518,422	47,056	4,285	5,599	575,362	6,755	4,790
Other liabilities	146,101	8,210	18,802	1,288	174,401	1,179	21,016
Total	6,076,526	473,540	195,513	53,954	6,799,533	67,976	218,546
Net position	545,243	36,392	18,978	17,094	617,707	5,226	21,214
Net off-balance sheet position:							
Credit commitments (note)	1,648,248	86,415	28,351	16,299	1,779,313	12,405	31,692
Derivatives:							
– forward purchased	435,138	443,111	47,517	12,180	937,946	63,609	53,116
– forward sold	(399,138)	(350,229)	(3,647)	(13,838)	(766,852)	(50,275)	(4,077)
– net currency option position	(15,493)	15,472	(255)	1,861	1,585	2,221	(285)
Total	20,507	108,354	43,615	203	172,679	15,555	48,754

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book (continued)

	2018						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and Balances with central banks	468,309	18,266	4,680	1,880	493,135	2,660	5,338
Amounts due from banks and other financial institutions	414,598	166,478	18,866	11,244	611,186	24,247	21,517
Loans and advances to customers	3,377,558	191,839	130,064	41,801	3,741,262	27,941	148,339
Investments (including derivatives)	1,576,694	73,949	23,563	12,290	1,686,496	10,771	26,873
Other assets	155,601	43,322	12,859	1,868	213,650	6,311	14,666
Total	5,992,760	493,854	190,032	69,083	6,745,729	71,930	216,733
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,025,703	103,989	13,116	7,348	1,150,156	15,146	14,959
Deposits from customers	3,903,972	316,770	142,793	37,139	4,400,674	46,137	162,857
Financial liabilities at fair value through profit or loss (including derivatives)	49,486	29,237	1,972	19	80,714	4,258	2,249
Debt securities issued	373,113	38,382	7,923	2,909	422,327	5,590	9,036
Other liabilities	131,201	7,214	5,663	4,175	148,253	1,051	6,457
Total	5,483,475	495,592	171,467	51,590	6,202,124	72,182	195,558
Net position	509,285	(1,738)	18,565	17,493	543,605	(252)	21,175
Net off-balance sheet position:							
Credit commitments (note)	1,384,833	119,708	28,089	23,854	1,556,484	17,435	32,036
Derivatives:							
– forward purchased	515,342	586,568	52,220	25,454	1,179,584	85,433	59,557
– forward sold	(542,869)	(543,114)	(24,796)	(45,387)	(1,156,166)	(79,104)	(28,280)
– net currency option position	(60,782)	64,568	364	(650)	3,500	9,404	415
Total	(88,309)	108,022	27,788	(20,583)	26,918	15,733	31,692

Notes: Credit commitments generally expire before they are drawn, therefore the above net position does not represent the future cash outflows.

Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book (continued)

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net foreign exchange gains and losses and equity. The following table sets forth the results of the Group's foreign exchange risk sensitivity analysis on the assets and liabilities as at 31 December 2019 and 31 December 2018.

	2019		2018	
	Change in foreign currency exchange rate		Change in foreign currency exchange rate	
	Down 1%	**Up 1%**	Down 1%	Up 1%
Increase/(decrease) in annualised net profit	**(145)**	**145**	177	(177)
Increase/(decrease) in annualised equity	**(145)**	**145**	177	(177)

Actual changes in the Group's net profit and equity resulting from increases or decreases in foreign exchange rates may be different from the results of this sensitivity analysis.

(ii) 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.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(1) Trading book (continued)

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.

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 2019 showed that the interest rate risk of banking book of the Company was generally stable with various indicators staying within the set limits.

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) Banking book (continued)

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

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

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.

	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 banks	567,613	552,307	–	–	–	15,306
Amounts due from banks and other financial institutions	521,209	454,186	57,023	10,000	–	–
Loans and advances to customers (note (i))	4,267,929	1,787,157	2,207,931	215,672	57,169	–
Investments (including derivatives)	1,808,630	273,258	348,706	742,595	403,762	40,309
Other assets (note (ii))	251,859	–	–	–	–	251,859
Total assets	7,417,240	3,066,908	2,613,660	968,267	460,931	307,474
Liabilities						
Amounts due to banks and other financial institutions	1,138,714	828,647	297,855	3,936	1,507	6,769
Deposits from customers	4,844,422	3,642,086	559,236	630,193	1,248	11,659
Financial liabilities at fair value through profit or loss (including derivatives)	66,634	415	201	10,093	–	55,925
Lease liabilities	14,379	1,003	2,729	8,436	2,211	–
Debt securities issued	575,362	117,570	302,061	120,869	34,862	–
Other liabilities (note (ii))	160,022	1,125	–	–	–	158,897
Total liabilities	6,799,533	4,590,846	1,162,082	773,527	39,828	233,250
Asset-liability gap	617,707	(1,523,938)	1,451,578	194,740	421,103	74,224

60. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) Banking book (continued)

	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 banks	493,135	477,321	–	–	–	15,814
Amounts due from banks and other financial institutions	611,186	518,613	91,091	268	1,214	–
Loans and advances to customers (note (i))	3,741,262	1,665,384	1,846,122	170,453	59,303	–
Investments (including derivatives)	1,686,496	439,396	173,454	665,013	360,022	48,611
Other assets (note (ii))	213,650	–	–	–	–	213,650
Total assets	6,745,729	3,100,714	2,110,667	835,734	420,539	278,075
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)	80,714	206	2,667	9,511	213	68,117
Debt securities issued	422,327	77,883	197,850	101,780	44,814	–
Other liabilities (note (ii))	148,253	19	–	–	–	148,234
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)	1,037,797	296,336	368,232	45,700

Note:

(i) For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 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.

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 31 December 2019 and 31 December 2018.

	2019		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	**(2,243)**	**2,243**	(1,966)	1,966
(Decrease)/increase in equity	**(3,701)**	**4,067**	(3,544)	3,756

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.

60. Risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group is not able to obtain sufficient funds at a reasonable cost and in a timely manner to deal with the appreciation of asset growth, to meet the maturity obligations, or to perform other payment obligations.

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 acts as the treasurer of the Group is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis under regulatory requirement, and conducting centralised liquidity management through quota management, budget control, initiative debt management as well as internal fund transfer pricing.

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

The Group regularly conducts stress testing to assess its liquidity demand under extreme circumstances. Except for the annual stress testing requested by the regulatory authorities, the Group conducts monthly stress testing on the liquidity risk of domestic and foreign currencies. The Group sets up liquidity contingency plans and conducts liquidity contingency drills to strengthen the capability to liquidity crises.

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

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

	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 banks (note (i))	90,384	–	–	–	–	–	477,229	–	567,613
Amounts due from banks and other financial institutions	75,300	218,574	158,030	58,606	10,518	181	–	–	521,209
Loans and advances to customers	–	410,349	355,891	1,217,503	1,119,454	1,149,038	–	15,694	4,267,929
Investments (note (ii))									
– Financial assets at fair value through profit or loss (including derivatives)	4,734	99,890	58,515	165,452	76,875	15,486	1,528	15	422,495
– Debt investments at amortised cost	–	9,041	16,218	104,421	469,749	307,331	–	712	907,472
– Debt investments at fair value through other comprehensive income	1,863	10,046	20,669	113,062	243,113	83,407	–	426	472,586
– Equity investments designated at fair value through other comprehensive income	–	–	–	–	–	–	6,077	–	6,077
Other assets (note (iv))	26,906	8,426	7,480	19,954	13,929	1,627	169,626	3,911	251,859
Total assets	199,187	756,326	616,803	1,678,998	1,933,638	1,557,070	654,460	20,758	7,417,240
Amounts due to banks and other financial Institutions	440,699	237,753	133,511	303,651	16,765	6,335	–	–	1,138,714
Deposits from customers (note (iii))	2,863,156	360,013	426,827	561,032	632,146	1,248	–	–	4,844,422
Financial liabilities at fair value through profit or loss (including derivatives)	9,391	13,029	7,754	6,806	23,558	6,096	–	–	66,634
Lease liabilities	–	527	476	2,729	8,436	2,211	–	–	14,379
Debt securities issued	–	12,008	105,563	302,062	120,867	34,862	–	–	575,362
Other liabilities (note (iv))	91,862	31,439	10,100	16,126	6,748	255	3,492	–	160,022
Total liabilities	3,405,108	654,769	684,231	1,192,406	808,520	51,007	3,492	–	6,799,533
(Short)/long position	(3,205,921)	101,557	(67,428)	486,592	1,125,118	1,506,063	650,968	20,758	617,707

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2018								
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Overdue	Total
Cash and Balances with central banks (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)	3,070	193,484	63,438	34,072	42,592	25,749	1,842	275	364,522
– Debt investments at amortised cost	–	9,809	78,307	106,912	467,555	240,250	–	435	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))	23,775	4,692	6,532	11,244	2,822	–	155,446	9,139	213,650
Total assets	140,244	1,053,468	472,090	1,409,522	1,682,861	1,335,606	622,817	29,121	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)	14,608	13,904	8,400	21,810	21,760	232	–	–	80,714
Debt securities issued	–	13,343	68,339	194,051	101,780	44,814	–	–	422,327
Other liabilities (note (iv))	65,087	44,850	9,438	19,273	5,517	766	3,322	–	148,253
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	(132,263)	292,412	1,109,555	1,281,453	617,883	29,121	543,605

Notes:

(i) For Balances with central banks, the amount with an indefinite maturity represents statutory deposit reserve and fiscal balances maintained with the PBOC.

(ii) The residual maturities of financial assets at 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.

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following table provides an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments and lease liabilities may vary significantly from this analysis.

	2019									
	Carrying amount	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
Non-derivative financial assets										
Cash and Balances with central banks	567,613	567,613	90,384	–	–	–	–	–	477,229	–
Amounts due from banks and other financial institutions	521,209	523,740	75,300	326,801	51,242	59,109	11,107	181	–	–
Loans and advances to customers	4,267,929	5,163,254	–	425,241	389,108	1,360,791	1,435,590	1,536,707	–	15,817
Investments										
– Financial assets at fair value through profit or loss	398,276	410,153	4,734	96,022	56,958	160,636	71,844	18,397	1,547	15
– Debt investments at amortised cost	907,472	1,092,832	–	11,961	21,924	128,632	550,066	379,389	155	705
– Debt investments at fair value through other comprehensive income	472,586	528,809	1,863	11,148	22,899	122,160	271,451	98,365	497	426
– Equity investments designated at fair value through other comprehensive income	6,077	6,077	–	–	–	–	–	–	6,077	–
Other assets	72,870	73,413	27,196	7,967	7,390	11,342	7,476	1,627	6,504	3,911
Total	7,214,032	8,365,891	199,477	879,140	549,521	1,842,670	2,347,534	2,034,666	492,009	20,874
Non-derivative financial liabilities										
Amounts due to banks and other financial institutions	1,138,714	1,187,903	440,802	253,535	153,219	315,174	18,230	6,943	–	–
Deposits from customers	4,844,422	4,993,293	2,906,977	364,336	434,185	581,100	705,095	1,600	–	–
Financial liabilities at fair value through profit or loss	43,434	44,233	9,391	10,202	3,941	1,094	13,545	6,060	–	–
Lease liabilities	14,379	15,858	–	525	475	2,768	9,445	2,645	–	–
Debt securities issued	575,362	599,308	–	12,541	107,009	306,506	132,560	40,692	–	–
Other liabilities	128,346	129,318	61,356	30,778	9,326	15,171	7,486	245	4,956	–
Total	6,744,657	6,969,913	3,418,526	671,917	708,155	1,221,813	886,361	58,185	4,956	–
Gross loan commitments		1,148,807	1,148,807	–	–	–	–	–	–	–

60. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2018									
	Carrying amount	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
Non-derivative financial assets										
Cash and Balances with central banks	493,135	493,135	31,621	–	–	–	–	–	461,514	–
Amounts due from banks and other financial institutions	611,186	664,376	92,117	425,647	42,522	99,309	3,567	1,214	–	–
Loans and advances to customers	3,741,262	4,485,884	–	429,359	305,185	1,224,946	1,225,783	1,281,883	–	18,728
Investments										
– Financial assets at fair value through profit or loss	330,302	343,188	3,070	190,274	59,861	23,319	34,330	30,190	1,868	276
– Debt investments at amortised cost	903,268	1,059,887	–	11,876	82,521	126,478	539,495	298,966	–	551
– Debt investments at fair value through other comprehensive income	414,691	469,935	434	22,104	18,406	83,448	232,981	112,052	–	510
– Equity investments designated at fair value through other comprehensive income	4,015	4,017	–	–	–	–	–	–	4,017	–
Other assets	68,165	68,290	24,041	4,861	6,485	10,969	2,772	–	10,023	9,139
Total	6,566,024	7,588,712	151,283	1,084,121	514,980	1,568,469	2,038,928	1,724,305	477,422	29,204
Non-derivative financial liabilities										
Amounts due to banks and other financial institutions	1,150,156	1,195,858	342,929	275,784	197,112	344,251	27,644	6,526	1,612	–
Deposits from customers	4,400,674	4,523,601	3,072,330	220,813	251,698	504,660	470,186	3,914	–	–
Financial liabilities at fair value through profit or loss	44,144	45,152	21,576	5,765	1,999	5,320	10,279	213	–	–
Debt securities issued	422,327	454,141	–	23,224	68,511	224,268	88,801	49,337	–	–
Other liabilities	117,184	117,690	35,521	44,540	9,085	17,487	7,224	1,863	1,970	–
Total	6,134,485	6,336,442	3,472,356	570,126	528,405	1,095,986	604,134	61,853	3,582	–
Gross loan commitments		942,392	942,392	–	–	–	–	–	–	–

Note: Interest receivable and interest payable of financial instruments are included in "other assets" and "other liabilities" respectively.

60. 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.

The Group manages its capital structure and adjust it based on the economic condition and the risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy, issue or repurchase shares, 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 quarterly.

60. Risk management *(continued)*

(e) Capital management *(continued)*

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 31 December 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, CMBWM.

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 approach. At the same time, the CBIRC implemented a transition period for commercial banks approved to use the advanced approach to calculate capital. During the transition period, the commercial banks should use both the advanced approach and other approaches to calculate capital adequacy ratios, and comply with minimum capital requirements.

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.

(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.

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

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

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

	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	775,720	2,143,146	1,723,469	1,272	4,643,607	10,960	(10,676)
Bond forwards	488	348	35	–	871	17	(14)
Bond futures	10	–	–	–	10	–	–
Bond options	–	–	279	–	279	1	–
Subtotal	776,218	2,143,494	1,723,783	1,272	4,644,767	10,978	(10,690)
Currency derivatives							
Forwards	36,636	7,007	803	21,541	65,987	569	(477)
Foreign exchange swaps	428,898	390,664	12,541	1,315	833,418	8,595	(7,781)
Futures	380	2,564	–	–	2,944	–	–
Options	124,262	103,354	5,183	–	232,799	3,313	(3,498)
Subtotal	590,176	503,589	18,527	22,856	1,135,148	12,477	(11,756)
Other derivatives							
Equity options purchased	1,423	5,113	56,447	–	62,983	507	–
Equity options written	1,423	5,113	56,447	–	62,983	–	(507)
Commodity trading	1,608	573	539	–	2,720	241	(213)
Credit default swap	697	836	–	–	1,533	2	–
Subtotal	5,151	11,635	113,433	–	130,219	750	(720)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	55	6,549	507	209	7,320	5	–
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	634	1,271	2,577	–	4,482	7	(34)
Currency derivatives							
Foreign exchange swaps	–	–	586	–	586	2	–
Subtotal	634	1,271	3,163	–	5,068	9	(34)
Total						24,219	(23,200)

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	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)
Bond Forwards	481	618	343	–	1,442	198	(198)
Subtotal	637,308	1,805,445	1,922,655	3,323	4,368,731	16,127	(14,946)
Currency derivatives							
Forwards	55,071	25,398	148	11,172	91,789	1,104	(867)
Foreign exchange swaps	450,164	604,153	9,767	–	1,064,084	13,748	(12,551)
Futures	–	2,839	–	–	2,839	–	–
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	121	171	11	–	303	69	(69)
Credit default swap	–	570	137	–	707	4	(1)
Subtotal	2,441	741	112,000	–	115,182	242	(239)
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)

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

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

60. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2019	2018
Credit risk weighted assets of counterparties		
Interest rate derivatives	**257**	272
Currency derivatives	**6,404**	7,728
Other derivatives	**4,439**	4,236
Credit valuation adjustment risk weighted assets	**10,517**	17,606
Total	**21,617**	29,842

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

(g) Fair value information

(i) Financial instruments at fair value

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

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

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

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.

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.

60. 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:

	2019			
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	17,336	100,420	378	118,134
– Long position in precious metal contracts	183	–	–	183
– Equity investments	1,142	–	1,315	2,457
– Investments in funds	2,149	69,136	414	71,699
– Wealth management products	–	20	844	864
– Non-standard assets -Bills	–	199,817	–	199,817
Subtotal	20,810	369,393	2,951	393,154
Investments designated at FVTPL				
– Debt securities	4,830	275	17	5,122
Derivative financial assets	–	24,219	–	24,219
Loans and advances to customers at FVTPL	–	–	5,779	5,779
Debt investments at FVTOCI	104,530	374,326	–	478,856
Loans and advances to customers at FVTOCI	–	233,789	30,346	264,135
Equity investments designated at FVTOCI	2,329	–	3,748	6,077
Total	132,499	1,002,002	42,841	1,177,342
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	13,701	–	–	13,701
– Short selling securities	1,187	–	–	1,187
Subtotal	14,888	–	–	14,888
Financial liabilities designated at FVTPL				
– Precious metal contracts with other banks	9,217	–	–	9,217
– Certificates of deposit issued	–	767	–	767
– Debt securities issued	9,237	–	–	9,237
– Others	–	6,220	3,105	9,325
Subtotal	18,454	6,987	3,105	28,546
Derivative financial liabilities	–	23,200	–	23,200
Total	33,342	30,187	3,105	66,634

60. 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)*

	2018			
	Level 1	Level 2	Level 3	Total
Assets				
Investments measured at FVTPL				
– Debt securities	10,335	110,166	746	121,247
– 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	–	174,845	–	174,845
– Others	–	–	3	3
Subtotal	12,575	300,730	3,593	316,898
Investments designated at FVTPL				
– Debt securities	4,972	8,384	48	13,404
Derivative financial assets	–	34,220	–	34,220
Loans and advances to customers at FVTPL	–	–	403	403
Debt investments at FVTOCI	79,158	341,912	–	421,070
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	98,180	841,929	27,268	967,377
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	17,906	–	–	17,906
– Short selling securities	1,090	–	–	1,090
Subtotal	18,996	–	–	18,996
Financial liabilities designated at FVTPL				
– Precious metal contracts with other banks	9,673	–	–	9,673
– Certificates of deposit issued	–	2,619	–	2,619
– Debt securities issued	9,977	–	–	9,977
– Others	–	365	2,514	2,879
Subtotal	19,650	2,984	2,514	25,148
Derivative financial liabilities	–	36,570	–	36,570
Total	38,646	39,554	2,514	80,714

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

60. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

Bloomberg's quoted prices 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.

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

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

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

60. 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 are as below:

	Fair value as at 31 December 2019	Valuation techniques	Unobservable input
Equity investments designated at FVTOCI	1,105	Market approach	Liquidity discount
Equity investments designated at FVTOCI	2,643	Net asset value approach	Net assets, liquidity discount
Loans and advances to customers at FVTPL	5,779	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Loans and advances to customers at FVTOCI	30,346	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Investments measured at FVTPL			
– Debt securities	378	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
– Equity investments	1,315	Market approach	Liquidity discount
– Investments in funds	414	Market approach	Liquidity discount
– Wealth management products	844	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Investments designated at FVTPL	17	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Financial liabilities designated at FVTPL	3,105	Net fund value approach	Net assets, liquidity discount

60. 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 are 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, liquidity discount
Loans and advances to customers at FVTPL	403	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
Loans and advances to customers at FVTOCI	20,684	Discounted cash flow approach	Cash flow, risk-adjusted discount rate, actual trading conditions-adjusted discount rate
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	48	Discounted cash flow approach	Risk-adjusted discount rate, cash flow
Financial liabilities designated at FVTPL	2,514	Net fund value approach	Net assets, liquidity discount

60. 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 are 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	3,641	403	20,684	2,540	27,268
Profit or loss					
– In profit or loss	(540)	27	(62)	–	(575)
– In other comprehensive income	–	–	2	1,018	1,020
Purchases/loans	131	5,741	51,435	–	57,307
Transfer to Level 3	59	–	–	–	59
Disposals or settlement on maturity	(314)	(400)	(41,713)	–	(42,427)
Exchange difference	(9)	8	–	190	189
At 31 December 2019	2,968	5,779	30,346	3,748	42,841
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	(540)	35	(62)	–	(567)

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 2018	2,171	–	14,909	2,380	19,460
Profit or loss					
– In profit or loss	376	5	(4)	–	377
– In other comprehensive income	–	–	30	86	116
Purchases/loans	3,457	388	31,732	101	35,678
Transfer to Level 3	279	–	–	–	279
Disposals or settlement on maturity	(2,349)	–	(25,983)	–	(28,332)
Exchange difference	(293)	10	–	(27)	(310)
At 31 December 2018	3,641	403	20,684	2,540	27,268
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	(4)	–	377

60. 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 are 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	**(17)**
Issues	**591**
Exchange difference	**17**
At 31 December 2019	**3,105**
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	**(17)**
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

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

During the year, there were no significant transfers between different levels for financial instruments which are measured at fair value on a recurring basis.

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

During the year, the Group has not changed the valuation techniques for financial assets that are measured at fair value on a recurring basis.

60. Risk management *(continued)*

(g) Fair value information *(continued)*

(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 and held-to-maturity investments, most of the financial assets will mature within 1 year, and their carrying value approximate their fair value. Loans and advances are stated at amortised costs less allowances for impairment loss (Note 22). 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 investments at amortised cost are stated at amortised costs less impairment, and the fair value of listed debt securities are disclosed in Note 23(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:

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 category adopts discounted cash flow valuation technique to measure fair value.

	2019					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	907,472	930,217	6,577	789,068	134,572	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 year presented, except the financial liabilities set out below:

	2019					2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated notes issued	34,469	35,631	–	35,631	–	45,714	46,191	–	46,191	–
Long-term debt securities issued	165,602	167,405	–	167,405	–	104,483	104,712	–	104,712	–
Total	200,071	203,036	–	203,036	–	150,197	150,903	–	150,903	–

61. Material related-party transactions

(a) Material connected person information

The Bank's main shareholders and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	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 (BVI) Limited	British Virgin Islands	USD0.06 million	477,903,500	1.89%	–	–	Shareholder	Limited company	–
China Merchants Industry Development (Shenzhen) Limited	Shenzhen	USD10 million	55,196,540	0.22%	–	Invest and set up industries, enterprise management consulting and investment consulting, etc.	Shareholder	Limited company	Wang Xiaoding
China Insurance Security Fund Co., Ltd	Beijing	RMB100 million	2,517,898,271	9.98% (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	limited company	Yu Hua

61. Material related-party transactions *(continued)*

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

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
Dajia 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, supporting the national medical security policy, and health insurance business 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 (iv))	–	International shipping business, import and export of goods and technology, International freight forwarding business, etc.	Shareholder's parent company	Limited company	Xu Lirong
China Ocean Shipping Co., Ltd.	Beijing	RMB16,191 million	1,574,729,111	6.24%	–	Transportation business, shipping space booking, time charter, voyage charter, leasing, constructing and trading ships, etc.	Shareholder	Limited company	Xu Lirong
China COSCO Shipping (Guangzhou) Co., Ltd.	Guang zhou	RMB3.191 million	696,450,214	2.76%	–	Shipping business	Shareholder	Limited company	Shou Jian
Guangzhou Haining Maritime Technology Service Co., Ltd.	Guang zhou	RMB2 million	103,552,616	0.41%	–	Business services	Shareholder	Limited company	Huang Biao
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	–

61. Material related-party transactions *(continued)*

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

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
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	RMB7,274 million	422,770,418	1.68% (note (v))	-	General contraction for construction	Shareholder's parent company	Limited company	Liu Qitao
China Communications Construction Co., Ltd	Beijing	RMB16,175 million	301,089,738	1.19%	-	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 (vi))	-	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 (vii))	-	Port construction and investment management, port leasing and maintenance business, handling and warehousing business etc.	Shareholder	Limited company	Cao ziyu
CMB International Capital Holdings Corporation Limited (CMBICHC)	Hong Kong	HKD4,129 million	-	-	100%	Financial advisory services	Subsidiary	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited (CMBFLC)	Shanghai	RMB6,000 million	-	-	100%	Finance lease	Subsidiary	Limited company	Shi Shunhua
CMB Wing Lung Bank Limited (CMB WLB)	Hong Kong	HKD1,161 million	-	-	100%	Banking	Subsidiary	Limited company	Zhu Qi
China Merchants Fund Management Co., Ltd. (CMFM)	Shenzhen	RMB1,310 million	-	-	55%	Fund Management	Subsidiary	Limited company	Liu Hui
CMB Wealth Management Co., Ltd	Shenzhen	RMB5,000 million	-	-	100%	Asset management	Subsidiary	Limited company	Liu Hui

61. Material related-party transactions *(continued)*

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

Notes:

(i) CMG holds 29.97% of the Bank (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 31 December 2019 (2018: 13.04%).

(iii) China Insurance Security Fund Co., Ltd ("China Insurance Security Fund") holds 9.98% of the Bank (2018: 11.63%) through respectively holds 98.23% of Anbang Insurance Group Co., Ltd. and Dajia Insurance Group Co., Ltd.

(iv) China COSCO Shipping Corporation Ltd. holds 9.97% of the Bank (2018: 9.97%) through its subsidiaries.

(v) China Communications Construction Group LTD ("China Communications Construction Group") holds 1.68% of the bank through its subsidiaries (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) (2018: 1.23%).

(vii) Hebei Port Group Company Ltd. directly holds 1.21% of the Bank (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 31 December 2019 and 2018 is as below:

Name of related party	2019	2018
CMG	**RMB16,700,000,000**	RMB16,700,000,000
CMSNCL	**RMB7,000,000,000**	RMB7,000,000,000
Shenzhen Yan Qing Investment Development Co., Ltd.	**RMB600,000,000**	RMB600,000,000
Shenzhen Chu Yuan Investment and Development Company Ltd.	**RMB600,000,000**	RMB600,000,000
China Merchants Finance Investment Holdings Co., Ltd.	**RMB600,000,000**	RMB600,000,000
Best Winner Investment Ltd.	**USD50,000**	USD50,000
China Merchants Union (BVI) Limited.	**USD60,000**	USD60,000
China Merchants Industry Development (Shenzhen) Co., Ltd.	**USD10,000,000**	USD10,000,000
China Insurance Security Fund Co., Ltd	**RMB100,000,000**	RMB100,000,000
Hexie Health Insurance Co., Ltd	**RMB13,900,000,000**	RMB13,900,000,000
Dajia Life Insurance Co., Ltd	**RMB30,790,000,000**	RMB30,790,000,000
China COSCO Shipping Corporation Limited.	**RMB11,000,000,000**	RMB11,000,000,000
China Ocean Shipping Co., Ltd.	**RMB16,191,351,300**	RMB16,191,351,300
China COSCO Shipping (Guangzhou) Co., Ltd.	**RMB3,191,200,000**	RMB3,191,200,000
Guangzhou Haining Maritime Technology Service Co., Ltd.	**RMB2,000,000**	RMB2,000,000
China COSCO Shipping (Shanghai) Co., Ltd.	**RMB1,398,941,000**	RMB1,398,941,000
China COSCO Shipping Financial Holdings Co., Ltd.	**HKD500,000,000**	HKD500,000,000
Guangzhou Tri-Dynas Oil & Shipping Co., Ltd.	**RMB299,020,000**	RMB299,020,000
China Communications Construction Group LTD	**RMB7,274,023,830**	RMB5,855,423,830
China Communications Construction Co., Ltd	**RMB16,174,735,425**	RMB16,174,735,425
Shanghai Automotive Industry Corporation (Group)	**RMB21,599,175,737**	RMB21,599,175,737
SAIC Motor Corporation Limited	**RMB11,683,461,365**	RMB11,683,461,365
Hebei Port Group Co., Ltd.	**RMB8,000,000,000**	RMB8,000,000,000
CMBICHC	**HKD4,129,000,000**	HKD4,129,000,000
CMBFLC	**RMB6,000,000,000**	RMB6,000,000,000
CMB WLB	**HKD1,160,950,575**	HKD1,160,950,575
CMFM	**RMB1,310,000,000**	RMB1,310,000,000
CMBWM	**RMB5,000,000,000**	N/A
CMB Europe S.A.	**EUR50,000,000**	N/A

61. Material related-party transactions *(continued)*

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

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	The Bank held by the largest shareholder		The subsidiaries held by the Bank									
	CMSNCL		CMBICHC		CMBFLC		CMB WLB		CMBICHC		CMBWM	
	RMB	%	HKD	%	RMB	%	HKD	%	HKD	%	RMB	%
At 1 January 2019	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	–	–
Change	–	–	–	–	–	–	–	–	–	–	5,000,000,000	100%
At 31 December 2019	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00	5,000,000,000	100%

	The Bank held by the largest shareholder		The subsidiaries held by the Bank							
	CMSNCL		CMBICHC		CMBFLC		CMB WLB		CMBICHC	
	RMB	%	HKD	%	RMB	%	HKD	%	HKD	%
At 1 January 2018	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00
Change	–	–	–	–	–	–	–	–	–	–
At 31 December 2018	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00

(b) Transaction terms and conditions

In each year, 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 into normal commercial terms. The banking transactions were priced at the market rates at each time of transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2019	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%

There were no credit impaired loans and advances granted to related parties during the year.

61. Material related-party transactions *(continued)*

(c) Shareholders and their related companies

The Bank's largest shareholder CMG holds 29.97% (2018: 29.97%) shares of the Bank through its subsidiaries as at 31 December 2019 (among them 13.04% shares is held by CMSNCL (2018: 13.04%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	2019	2018
On-balance sheet:		
– Loans and advances to customers	**26,222**	12,151
– Investments	**2,527**	4,526
– Deposits from customers	**68,795**	59,156
Off-balance sheet:		
– Irrevocable guarantees	**2,449**	1,868
– Irrevocable letters of credit	**341**	434
– Bills of acceptances	**462**	146
– Factoring	**–**	161
Interest income	**834**	718
Interest expense	**1,189**	728
Net fee and commission income	**561**	398
Operating expenses	**(34)**	(47)
Other net income	**(1)**	3

(d) Companies controlled by or be significantly influenced by or appointed common directors, senior management and/or supervisors of the Bank other than those under Note 61(c) above

	2019	2018
On-balance sheet:		
– Loans and advances to customers	**22,577**	13,489
– Investments	**3,788**	3,549
– Deposits from customers	**48,969**	32,269
Off-balance sheet:		
– Irrevocable guarantees	**5,429**	5,017
– Irrevocable letters of credit	**640**	97
– Bills of acceptances	**6,391**	2,056
– Factoring	**–**	1,628
Interest income	**1,402**	672
Interest expense	**530**	470
Net fee and commission income	**1,042**	562
Operating expenses	**(1,614)**	(1,436)
Other net income	**6**	(87)

61. Material related-party transactions *(continued)*

(e) Associates and joint ventures other than those under Note 61(c) above

	2019	2018
On-balance sheet:		
– Loans and advances to customers	**6,178**	2,748
– Deposits from customers	**1,040**	1,696
– Placements	**11,600**	9,500
Off-balance sheet:		
– Irrevocable guarantees	**8,299**	8,701
Interest income	**79**	11
Interest expense	**19**	17
Net fee and commission income	**973**	1,123
Operating expenses	**(31)**	10

(f) Other shareholders holding more than 5% shares

	2019	2018
On-balance sheet:		
– Loans and advances to customers	**31,715**	22,306
– Investments	**795**	934
– Deposits from customers	**41,031**	27,601
Off-balance sheet:		
– Irrevocable guarantees	**36,365**	16,144
– Irrevocable letters of credit	**50**	30
– Bills of acceptances	**540**	360
– Factoring	**–**	11
Interest income	**746**	267
Interest expense	**1,341**	971
Net fee and commission income	**1,290**	1,360
Other net income	**19**	55

61. Material related-party transactions *(continued)*

(g) Subsidiaries

	2019	2018
On-balance sheet		
– Balances with banks and other financial institutions	**3,285**	2,545
– Placements with banks and other financial institutions	**28,654**	25,689
– Loans and advances to customers	**717**	3,237
– Investments	**1,978**	1,142
– Deposits from banks and other financial institutions	**45,298**	12,859
– Deposits from customers	**3,130**	1,036
Off-balance sheet		
– Irrevocable guarantees	**–**	3,433
– Bills of acceptances	**277**	573
Interest income	**816**	91
Interest expense	**454**	413
Net fee and commission	**1,084**	1,419
Operating expenses	**132**	13
Other net income	**–**	1

All significant balances and transactions between the Bank and its subsidiaries have been eliminated in the consolidated financial statements.

(h) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	**46,746**	51,472
Discretionary bonuses (Note 11(i))	**–**	–
Share-based payment	**54,390**	29,444
Contributions to defined contribution retirement schemes	**506**	1,312
Total	**101,642**	82,228

The above share-based payments represent the estimated fair value of the share appreciation rights granted (Note 39(a)(iii)) to senior management under the Bank's H share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in Note 4(17); and the amounts have been charged to the consolidated statement of profit or loss and other comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

(i) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2019 and 31 December 2018.

62. Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the subsidiaries. In the opinion of the directors of the Bank, the Group does not have any subsidiary with significant non-controlling interests during the reporting period.

a) Perpetual debt capital

CMB WLB, the Group's subsidiary, issued perpetual debt of US$170 million on 27 April 2017 and another perpetual debt of US$400 million on 24 January 2019.

	Principal	Distributions/Paid	Total
At 1 January 2019	1,158	–	1,158
Perpetual debt capital issued	2,761	–	2,761
Distributions in 2019	–	153	153
Paid in 2019	–	(153)	(153)
Exchange difference	60	–	60
At 31 December 2019	3,979	–	3,979

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 of the issuer to deliver cash to other parties. During the year ended 31 December 2019, CMB WLB did not cancel the payment of distribution and the corresponding amount was paid to perpetual debt holders accordingly.

63. 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 the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities and fund shares at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

The Group carried out an assessment based on the criteria as detailed in Note 4(5), and 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 year ended 31 December 2019 the Group has transferred the ownership of the loans amounted to RMB115,881 million (2018: RMB45,071 million), as well as substantially all the risks and rewards of the loans have been transferred, the full amount of such securitised loans were derecognised.

63. Transfers of financial assets *(Continued)*

Securitisation of credit assets *(continued)*

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the Group recognises the assets on the statement of financial position in accordance with the Group's continuing involvement and the rest is derecognised. The extent of the Group's continuing involvement is the extent of the risks and rewards undertaken by the Group with value changes of the transferred financial assets. The amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring the subordinated tranches, was RMB10,402 million during the year ended 31 December 2019 (2018: Nil) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB987 million during the year ended 31 December 2019 (2018: Nil). The Group also recognized other assets and other liabilities of the same amount arising from such continuing involvement.

With respect to the underlying assets, certain finance leases receivable did not meet the criteria of derecognition, the Group did not derecognize such finance leases receivable, the consideration received was recognised as financial liabilities. As at 31 December 2019, the Group does not have carrying amount of transferred assets that did not qualify for derecognition (31 December 2018: RMB1,415 million) and the carrying amount of recognised financial liabilities (31 December 2018: RMB706 million).

Transactions of credit assets

During the year 2019, the Group has transferred credit assets to third party institutions directly amounted to RMB889 million (2018: RMB79,544 million), and none of these transferred credit assets is transferred to structured entities (2018: RMB77,607 million). The Group carried out an assessment based on the criteria as detailed in Note 4(5), and concluded that these transferred assets qualified for full de-recognition.

Repurchase transactions and securities lending transactions

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

64. Interests in unconsolidated structured entities

(a) Interest 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 income 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 31 December 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 31 December 2019 and 31 December 2018 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	31 December 2019				
	Carrying amount				
	Financial assets at fair value through profit or loss	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
Asset management schemes	165,068	109,344	–	274,412	274,412
Trust beneficiary rights	–	33,389	–	33,389	33,389
Asset backed securities	1,075	40	1,185	2,300	2,300
Investment in funds	71,699	–	–	71,699	71,699
Total	237,842	142,773	1,185	381,800	381,800

	31 December 2018				
	Carrying amount				
	Financial assets at fair value through profit or loss	Debt investments at amortised cost	Debt investments at FVTOCI	Total	Maximum exposure
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.

64. Interests in unconsolidated structured entities *(Continued)*

(b) Interest 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 asset management schemes. The nature and purpose of these structured entities are to generate income 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 31 December 2019, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB2,293,628 million (31 December 2018: RMB2,052,183 million).

As at 31 December 2019, the amount of the unconsolidated mutual funds, which are sponsored by the Group, is RMB378,304 million (31 December 2018: RMB382,772 million).

As at 31 December 2019, the amount of the unconsolidated asset management schemes, which are sponsored by the Group, is RMB270,585 million (31 December 2018: RMB271,239 million).

As at 31 December 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 RMB63,214 million (31 December 2018: RMB87,903 million) and RMB82,113 million (31 December 2018: RMB60,591 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During year ended 31 December 2019, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB7,330 million (2018: RMB8,972 million).

During the year ended 31 December 2019, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB1,400 million (2018: RMB1,448 million).

During the year ended 31 December 2019, the amount of management fee income received from the unconsolidated asset management schemes by the Group is RMB744 million (2018: RMB762 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2019 with a maturity date before 31 December 2019 was RMB2,363,999 million (2018: RMB3,008,657 million).

65. Subsequent events

2019 Novel Coronavirus Disease broke out in China in January 2020 and it is expected to have significant impact on the overall economy and the business operation of certain industries and cities, especially in Hubei Province in the short run. Hence the quality or the yields of the credit assets and investment assets of the Group will be undermined to a certain degree. The degree of the influence depends on the situation of the pandemic preventive measures, the duration of the pandemic and the implementation of regulatory policies, etc.

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 CBIRC's Administrative Measures on the Capital of Commercial Banks (Trial) issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

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

	2019	2018
Core tier-1 capital adequacy ratio	**11.95%**	11.78%
Tier-1 capital adequacy ratio	**12.69%**	12.62%
Capital adequacy ratio	**15.54%**	15.68%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**67,281**	67,149
Surplus reserves	**62,184**	53,648
Regulatory general reserve	**90,151**	78,543
Retained profits	**317,643**	272,510
Qualifying portion of non-controlling interests	**243**	207
Others (note (i))	**10,624**	6,858
Total core tier-1 capital	**573,346**	504,135
Regulatory deductions from core tier-1 capital	**23,007**	21,795
Net core tier-1 capital	**550,339**	482,340
Additional tier-1 capital (note (ii))	**34,097**	34,093
Net tier-1 capital	**584,436**	516,433
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**31,700**	43,000
Surplus provision for loans impairment	**99,724**	82,393
Qualifying portion of non-controlling interests	**65**	55
Total tier-2 capital	**131,489**	125,448
Regulatory deductions from core tier-2 capital	**–**	–
Net tier-2 capital	**131,489**	125,448
Net capital	**715,925**	641,881
Total risk-weighted assets	**4,606,786**	4,092,890

Notes:

(i) : Others represent exchange reserve of foreign currency consolidated financial statements under CBIRC's Administrative Measures on the Capital of Commercial Banks (Trial).

(ii) : The Group's additional tier-1 capital includes qualifying portion of non-controlling interests, preferred shares and etc.

(A) Capital adequacy ratio *(continued)*

In 2019, in accordance with the advanced capital management approach approved by CBIRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 11.48%, tier-1 capital adequacy ratio is 12.23%, capital adequacy ratio is 15.27%, net capital is RMB635,977 million and total risk-weighted assets is RMB4,163,903 million.

In 2019, by the method of calculating credit risk using the weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 10.64%, tier-1 capital adequacy ratio is 11.30%, capital adequacy ratio is 13.02%, net capital is RMB673,366 million and total risk-weighted assets is RMB5,170,500 million.

In 2019, by the method of calculating credit risk using the weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Bank's core tier-1 capital adequacy ratio is 10.09%, tier-1 capital adequacy ratio is 10.75%, capital adequacy ratio is 12.53%, net capital is RMB593,418 million and total risk-weighted assets is RMB4,737,827 million.

(B) Leverage ratio

In accordance with the CBIRC'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.

Summary comparison of accounting assets and leverage ratio exposure measure:

	2019	2018
Total consolidated assets as per published financial statements	**7,417,240**	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	**(24,603)**	(9,608)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**11,796**	8,744
Adjustment for securities financing transactions	**28,861**	34,953
Adjustment for off-balance sheet items	**1,194,234**	1,054,031
Other adjustments	**(23,007)**	(21,795)
Balance of adjusted on-balance sheet and off-balance sheet assets	**8,604,521**	7,812,054

(B) Leverage ratio *(Continued)*

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

	2019	2018
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	7,258,371	6,502,515
Less: Asset amounts deducted in determining Basel III Tier 1 capital	(23,007)	(21,795)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	**7,235,364**	6,480,720
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	13,393	17,420
Add-on amounts for potential future exposure associated with all derivatives transactions	21,805	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	817	954
Less: Adjusted effective notional deductions for written credit derivatives	–	–
Total derivative exposures	**36,015**	42,964
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	110,047	199,386
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
Counterparty credit risk exposure for SFT assets	28,861	34,953
Agent transaction exposures	–	–
Total securities financing transaction exposures	**138,908**	234,339
Off-balance sheet exposure at gross notional amount	2,266,901	1,964,539
Less: Adjustments for conversion to credit equivalent amounts	(1,072,667)	(910,508)
Balance of adjusted off-balance sheet assets	**1,194,234**	1,054,031
Net tier-1 capital	**584,436**	516,433
Balance of adjusted on-balance sheet and off-balance sheet assets	**8,604,521**	7,812,054
Leverage ratio	**6.79%**	6.61%

(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 167.42% in the fourth quarter of 2019, an increase of 23.58 percentage points from the previous quarter, mainly due to the increase in the scale of cash inflows from financial institutions. The Group's liquidity coverage ratio at the end of the fourth quarter of 2019 was 169.63%, 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 fourth 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**		**1,068,974**
Cash outflows			
2	Retail and small business customers deposits, of which:	1,854,925	165,340
3	Stable deposits	403,047	20,152
4	Less stable deposits	1,451,878	145,188
5	Unsecured wholesale funding, of which:	2,958,483	1,110,140
6	Operational deposits (excluding correspondent banks)	1,682,062	419,060
7	Non-operational deposits (including all counterparties)	1,249,161	663,820
8	Unsecured debt issuance	27,260	27,260
9	Secured funding		9,635
10	Additional requirements, of which:	1,347,629	346,476
11	Cash outflows arising from derivative contract and other transactions arising from related collateral requirements	288,471	288,471
12	Cash outflows arising from secured debt Instruments funding	–	–
13	Undrawn committed credit and liquidity facilities	1,059,158	58,005
14	Other contractual obligations to extend funds	48,915	48,915
15	Other contingent funding obligations	5,965,787	87,332
16	**Total cash outflows**		**1,767,838**
Cash inflows			
17	Secured lending (including reverse repo and securities borrowing)	165,208	163,147
18	Contractual inflows from fully performing loans	998,399	666,624
19	Other cash inflows	300,189	299,566
20	**Total cash inflows**	**1,463,796**	**1,129,337**

		Adjusted value
21	**Total stock of high quality liquid assets**	**1,068,974**
22	**Net cash outflows**	**638,501**
23	**Liquidity coverage ratio (%)**	**167.42%**

Note:

(i) The data of mainland in the above table is a simple arithmetic average of the 92-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".

(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 fourth quarter of 2019 was 121.04%, representing an increase of 1.97 percentage points as compared with the previous quarter, which was mainly due to the increase in time deposits. The breakdown of the Group's net stable fund ratio in the last two quarters is set out below:

31 December 2019

Serial No.		Unweighted amount				Weighted amount
		No maturity	< 6 months	6 months to 12 months	≥ 12 months	
Available stable funding (ASF) item						
1	Capital	619,143	–	–	20,000	639,143
2	Regulatory capital	607,443	–	–	20,000	627,443
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,458,292	620,811	19,662	1,476	1,912,495
5	Stable deposits	439,963	2,505	148	769	421,254
6	Less stable deposits	1,018,329	618,306	19,514	707	1,491,241
7	Wholesale funding	1,873,504	1,786,087	428,058	349,363	2,007,486
8	Operational deposits	1,554,221	120,131	–	–	837,176
9	Other wholesale funding	319,283	1,665,956	428,058	349,363	1,170,310
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	20,608	161,687	5,738	52,811	25,290
12	NSFR derivative liabilities				30,390	
13	All other liabilities and equity not included in the above categories	20,608	161,687	5,738	22,421	25,290
14	Total ASF					4,584,414
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					118,678
16	Deposits held at other financial institutions for operational purposes	40,664	8,382	–	–	24,523
17	Performing loans and securities	55,617	2,061,993	965,108	2,397,879	3,283,353
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	13,863	612,826	157,762	43,270	236,571
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:	–	1,139,168	755,264	1,256,844	1,979,691
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	103,817	89,860	179,212	213,326
22	Performing residential mortgages, of which:	–	31,161	28,945	1,037,004	911,507
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	41,754	142,726	23,137	60,761	155,584
25	Assets with matching interdependent liabilities	–	297	–	–	–
26	Other assets	104,868	16,578	895	82,308	183,806

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

31 December 2019 *(continued)*

Serial No.		Unweighted amount No maturity	< 6 months	6 months to 12 months	≥ 12 months	Weighted amount
Required stable funding (RSF) item *(continued)*						
27	Physical traded commodities, including gold	4,092				3,478
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				207	176
29	NSFR derivative assets				26,056	–
30	NSFR derivative liabilities before deduction of variation margin posted				30,782	6,156
31	All other assets not included in the above categories	100,776	16,578	895	56,045	173,996
32	Off-balance sheet items				7,959,301	177,106
33	Total RSF					3,787,466
34	Net Stable Funding Ratio (%)					121.04%

30 September 2019

Serial No.		Unweighted amount No maturity	< 6 months	6 months to 12 months	≥ 12 months	Weighted amount
Available stable funding (ASF) item						
1	Capital	604,642	–	–	20,000	624,642
2	Regulatory capital	592,942	–	–	20,000	612,942
3	Other capital instruments	11,700	–	–	–	11,700
4	Retail deposits and deposits from small business customer	1,332,384	624,359	31,850	1,016	1,811,348
5	Stable deposits	409,071	2,756	110	27	391,368
6	Less stable deposits	923,313	621,603	31,740	989	1,419,980
7	Wholesale funding	1,681,474	1,923,553	471,366	343,439	2,026,537
8	Operational deposits	1,609,802	4,718	–	–	807,260
9	Other wholesale funding	71,672	1,918,835	471,366	343,439	1,219,277
10	Liabilities with matching interdependent assets	–	–	–	–	–
11	Other liabilities	24,716	172,668	5,636	68,821	22,059
12	NSFR derivative liabilities				49,580	
13	All other liabilities and equity not included in the above categories	24,716	172,668	5,636	19,241	22,059
14	Total ASF					4,484,586
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)					130,546
16	Deposits held at other financial institutions for operational purposes	87,879	2,997	–	–	45,438
17	Performing loans and securities	74,753	1,995,920	895,914	2,453,142	3,245,120
18	Performing loans to financial institutions secured by Level 1 HQLA	–	180,540	–	–	–
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	21,407	631,541	120,301	37,161	222,335

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

30 September 2019 *(continued)*

Serial No.		Unweighted amount No maturity	Unweighted amount < 6 months	Unweighted amount 6 months to 12 months	Unweighted amount ≥ 12 months	Weighted amount
Required stable funding (RSF) item *(continued)*						
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:	–	1,044,329	718,070	1,300,030	1,950,380
21	With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk	–	120,589	59,392	179,224	206,487
22	Performing residential mortgages of which:	–	45,128	28,168	1,013,592	896,674
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	53,346	94,382	29,375	102,359	175,731
25	Assets with matching interdependent liabilities	–	–	–	–	–
26	Other assets	100,468	24,110	544	74,295	171,226
27	Physical traded commodities, including gold	3,537				3,007
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				230	196
29	NSFR derivative assets				37,688	–
30	NSFR derivative liabilities before deduction of variation margin posted				50,298	10,060
31	All other assets not included in the above categories	96,931	24,110	544	36,377	157,963
32	Off-balance sheet items				6,697,015	174,029
33	Total RSF					3,766,359
34	Net Stable Funding Ratio (%)					119.07%

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".

(E) Currency concentrations other than RMB

	2019			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	472,674	43,884	68,777	585,335
Spot liabilities	436,787	33,306	74,813	544,906
Forward purchased	419,254	9,124	79,215	507,593
Forward written	444,655	9,237	69,488	523,380
Net option position	2,222	(127)	349	2,444
Net long position	12,708	10,338	4,040	27,086
Net structural position	8,460	32,540	1,046	42,046

	2018			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
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.

(F) 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.

	2019			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Foreign currencies transactions in Mainland China	**91,598**	**1,702**	**75,452**	**168,752**
Asia Pacific excluding Mainland China	**43,077**	**37,338**	**144,295**	**224,710**
– of which attributed to Hong Kong	**24,941**	**34,766**	**124,101**	**183,808**
Europe	**10,951**	**2,346**	**17,928**	**31,225**
North and South America	**32,918**	**45,085**	**50,046**	**128,049**
Total	**178,544**	**86,471**	**287,721**	**552,736**

	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

(G) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

	2019		2018	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Property development	**308,342**	**55**	262,323	56
Transportation, storage and postal services	**306,642**	**33**	248,815	34
Manufacturing	**240,717**	**32**	255,683	31
Wholesale and retail	**151,278**	**34**	157,984	37
Production and supply of electric power, heating power, gas and water	**144,530**	**34**	138,773	32
Leasing and commercial services	**144,377**	**22**	124,094	28
Construction	**95,279**	**23**	84,475	28
Financial concerns	**63,420**	**32**	61,963	40
Water, environment and public utilities management	**57,044**	**51**	55,890	61
Telecommunications, software and IT services	**51,406**	**28**	60,703	33
Mining	**29,744**	**34**	35,349	44
Others	**59,640**	**32**	59,021	38
Corporate loans and advances subtotal	**1,652,419**	**36**	1,545,073	38
Discounted bills	**226,040**	**100**	149,766	100
Residential mortgage	**1,098,673**	**100**	921,500	100
Credit cards	**670,922**	**–**	575,299	–
Micro-finance loans	**405,155**	**89**	349,009	92
Others	**152,193**	**37**	141,835	54
Retail loans and advances subtotal	**2,326,943**	**65**	1,987,643	66
Gross loans and advances to customers	**4,205,402**	**56**	3,682,482	56

(G) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

	2019		2018	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Financial concerns	63,286	37	52,174	36
Property development	60,035	51	54,167	66
Transportation, storage and postal services	30,567	90	38,212	65
Leasing and commercial services	28,992	61	2,001	89
Manufacturing	20,994	22	26,860	45
Wholesale and retail	11,579	41	12,505	51
Mining	9,445	40	2,196	97
Production and supply of electric power, heating power, gas and water	5,553	17	7,889	16
Telecommunications, software and IT services	4,494	15	9,309	68
Construction	2,196	24	5,635	25
Water, environment and public utilities management	1,219	86	26	7
Others	11,215	56	17,882	72
Corporate loans and advances subtotal	249,575	49	228,856	54
Residential mortgage	9,475	100	7,260	100
Credit cards	177	–	191	–
Micro-finance loans	625	100	1,525	99
Others	25,396	95	12,720	88
Retail loans and advances subtotal	35,673	96	21,696	92
Gross loans and advances to customers	285,248	55	250,552	57

(G) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

When the amount of loans and advances to customers for an industry/variety accounts for 10% or above of the total amount of loans and advances to customers, the amount of overdue loans, impaired loans and credit impairment allowances in each expected credit loss stage are disclosed as follows:

	2019				
	Overdue loans and advances	Impaired loans and advances	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)
Residential mortgage	3,985	2,752	9,038	372	1,940
Credit card	18,349	9,033	4,869	15,969	8,645

	2018				
	Overdue loans and advances	Impaired loans and advances	–Stage 1 (12-month ECL)	–Stage 2 (Lifetime ECL-not credit-impaired)	–Stage 3 (Lifetime ECL-credit impaired)
Residential mortgage	3,614	2,610	7,655	435	2,054
Credit card	12,595	6,394	4,213	12,895	6,044

As at 31 December 2019, for corporate loans and advances measured at amortised cost, the fair value of collateral held against impaired loans and advances is RMB7,421 million (31 December 2018: RMB6,868 million).

(H) Overdue loans and advances to customers

(i) By geographical segments

	2019	2018
Headquarters	**10,835**	6,025
Yangtze River Delta region	**6,920**	7,834
Bohai Rim region	**6,324**	7,798
Pearl River Delta and West Coast region	**6,420**	6,020
Northeast region	**4,023**	3,922
Central region	**2,957**	4,003
Western region	**5,777**	5,460
Outside Mainland China	**276**	248
Subsidiaries	**932**	962
Total	**44,464**	42,272

(ii) By overdue period

	2019	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)	**9,015**	7,057
– between 6 and 12 months (inclusive)	**11,273**	9,390
– over 12 months	**24,176**	25,825
Total	**44,464**	42,272
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	**0.20%**	0.18%
– between 6 and 12 months (inclusive)	**0.25%**	0.24%
– over 12 months	**0.54%**	0.66%
Total	**0.99%**	1.08%

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

(iii) Collateral information

	2019	2018
Secured portion of overdue loans and advances	**11,849**	9,277
Unsecured portion of overdue loans and advances	**32,483**	32,978
Value of collateral held against overdue loans and advances	**46,032**	19,137

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

(I) Rescheduled loans and advances to customers

	2019		2018	
	Amount	% of total loans and advances	Amount	% of total loans and advances
Rescheduled loans and advances to customers (Note)	**25,022**	**0.56%**	22,766	0.58%
Less:				
– rescheduled loans and advances overdue more than 90 days	**19,255**	**0.43%**	16,218	0.41%
Rescheduled loans and advances overdue less than 90 days	**5,767**	**0.13%**	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 31 December 2019 was 1 million (2018: 1 million).

(J) 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 31 December 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.

(K) Corporate governance

Board committees

The Board of Directors has established six committees including the Strategy Committee, Audit committee, Related Party Transactions Control Committee, Risk and Capital Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy Committee

Main authorities and duties of the Strategy Committee are:

- to formulate the operational goals and medium-to-long term development strategies of the Bank, and make an overall assessment on strategic risks;
- to consider material investment and financing plans and make proposals to the Board of Directors;
- to supervise and review the implementation of the annual operational and investment plans;
- to evaluate and monitor the implementation of Board resolutions; and
- to make recommendations and proposals on important issues for discussion and determination by the Board of Directors.

(ii) Audit Committee

Main authorities and duties of the Audit Committee are:

- to propose the appointment or replacement of external auditors;
- to monitor the internal audit system of the Bank and its implementation, and evaluate the work procedures and work effectiveness of its internal audit department;
- to coordinate the communication between internal auditors and external auditors;
- to audit the financial information of the Bank and disclosure of such information, and is responsible for the annual audit work of the Bank, including issue of a conclusive report on whether the information contained in the audited financial statements is true, accurate, complete and updated, and submit the same to the Board of Directors for consideration;
- to examine the internal control system of the Bank, and make recommendations for improvement in the internal control of the Bank;
- to review and supervise the mechanism for the Bank's employees to whistle blow any misconduct in respect of financial reports, internal control or otherwise, so as to ensure that the Bank always handles the whistle blowing issues in a fair and independent manner and takes appropriate actions;
- to examine the accounting policies, financial reporting procedures and financial position of the Bank; and
- any other task delegated by the Board of Directors.

(iii) Related Party Transactions Control Committee

Main authorities and duties of the Related Party Transactions Control Committee are:

- to identify connected persons of the Company according to relevant laws and regulations;
- to inspect, supervise and review major related party transactions and continuing related party transactions, and to control the risks associated with related party transactions;
- to review the administrative measures on related party transactions of the Bank, and to monitor the establishment and improvement of the related party transactions management system of the Bank; and
- to review the announcements on related party transactions of the Bank.

(K) Corporate governance *(continued)*

Board committees *(continued)*

(iv) Risk and Capital Management Committee

Main authorities and duties of the Risk and Capital Management Committee are:

- to supervise the status of risk control by the senior management of the Bank in relation to credit risk, market risk, operational risk, liquidity risk, strategic risk, compliance risk, reputation risk, country risk and other risks;
- to make regular assessment on the risk policies, management status, risk-withstanding ability and capital status of the Bank;
- to perform relevant duties under the advanced capital measurement method pursuant to the authorisation given by the Board of Directors;
- to submit proposals on perfecting the management of risks and capital of the Bank;
- to arrange and instruct risk prevention works in accordance with the authorisation of the Board of Directors; and
- any other task delegated by the Board of Directors.

(v) Remuneration and Appraisal Committee

Main authorities and duties of the Remuneration and Appraisal Committee are:

- to study the appraisal standards for directors and senior management, and conduct appraisals and make recommendations based on the actual conditions of the Bank;
- to study and review the remuneration policies and proposals in respect of directors and senior management of the Bank, make recommendations to the Board of Directors and supervise the implementation of such proposals;
- to review the regulations and policies in respect of remuneration of the Bank; and
- any other task delegated by the Board of Directors.

(vi) Nomination Committee

Main authorities and duties of the Nomination Committee are:

- to review the structure, size and composition of the Board of Directors (including their expertise, knowledge and experience) at least once a year and make recommendations on any change to the Board of Directors to implement the strategies of the Bank according to the Bank's business operations, asset scale and shareholding structure of the Bank;
- to study the standards and procedures for selection of directors and senior management, and make recommendations to the Board of Directors;
- to conduct extensive searches for qualified candidates for directors and senior management;
- to conduct preliminary examination on the candidates for directors and senior management and make recommendations to the Board of Directors; and
- any other task delegated by the Board of Directors.

招商银行
CHINA MERCHANTS BANK
招商銀行股份有限公司

We are here Just for you

http: //www.cmbchina.com

Add: China Merchants Bank Tower, No 7088, Shennan Boulevard, Shenzhen, China

Tel: +86 755 8319 8888

Fax: +86 755 8319 5109

Postcode: 518040