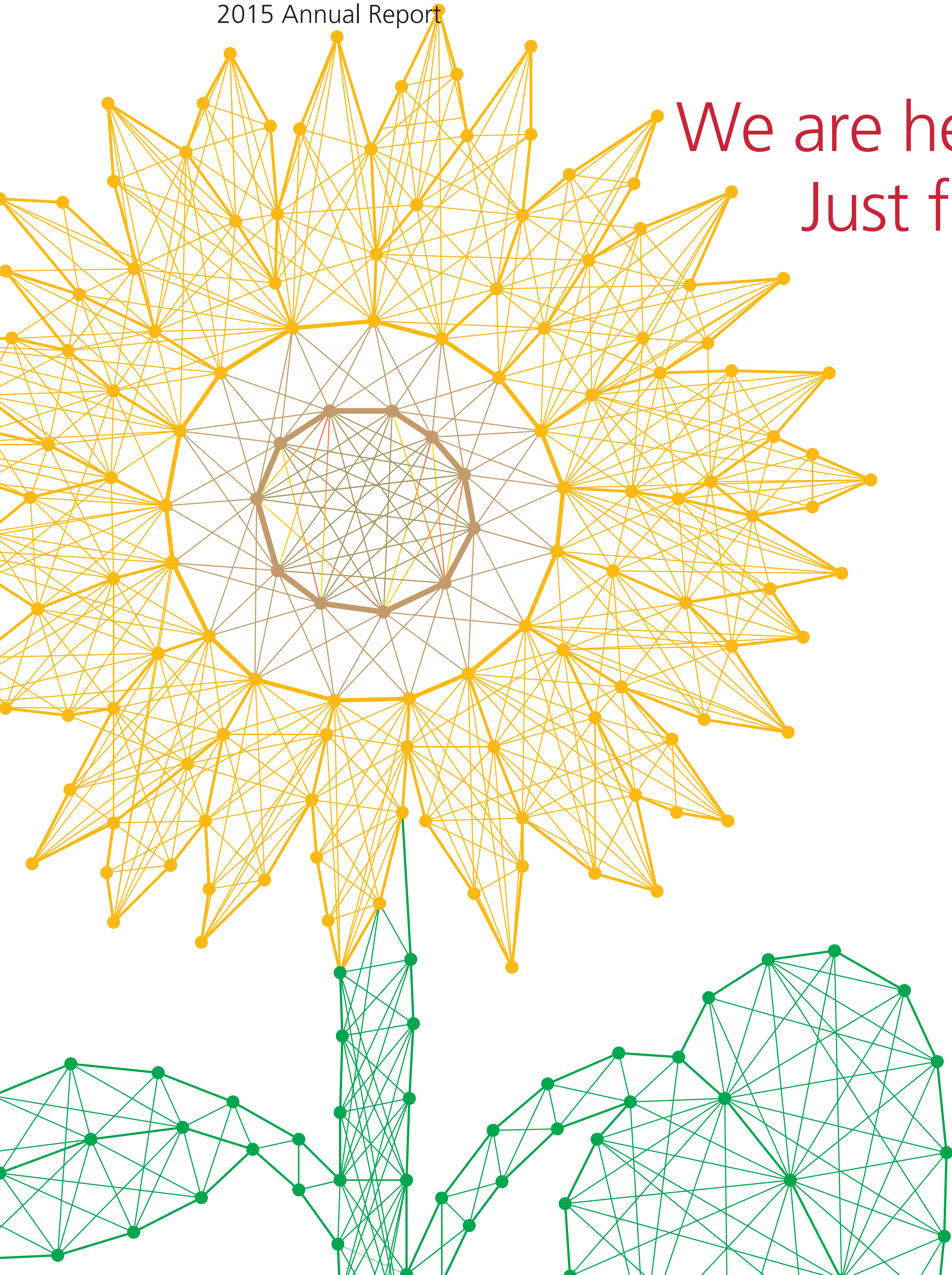
招商銀行
CHINA MERCHANTS BANK

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

Stock Code : 03968

# 2015 Annual Report



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# 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 45th meeting of the Ninth Session of the Board of Directors of the Company was held at the China Merchants Bank University, Shenzhen from 29 to 30 March 2016. The meeting was presided by Li Jianhong, Chairman of the Board. 13 out of 16 eligible directors attended the meeting in person. Tian Huiyu (Executive Director), Fu Gangfeng (Non-Executive Director) and Zhao Jun (Independent Non-Executive Director) failed to attend the meeting because of business appointments, and entrusted Li Hao (Executive Director), Hong Xiaoyuan (Non-Executive Director) and Leung Kam Chung, Antony (Independent Non-Executive Director) to exercise the voting right, respectively. A total of 16 valid votes were cast. 5 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

3. KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants (both being auditors of the Company) have separately reviewed the 2015 annual financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Financial Reporting 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, Li Hao, First Executive Vice President and Chief Financial Officer, and Wang Tao, 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. Proposal of profit appropriation: As stated in the audited PRC financial statements of the Company for 2015, 10% of the profit after tax of RMB53.189 billion, equivalent to RMB5.319 billion, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the increased risk assets in this reporting period, equivalent to RMB10.720 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 RMB6.90 (tax included) for every 10 shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The retained profit will be carried forward to the next year. In 2015, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2015 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 identify 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 translate 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 more attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business or other performance of the Group, and are subject to a number of uncertainties which may cause substantial differences in the actual results.

# Definitions

**Company, Bank, CMB or China Merchants Bank:**
China Merchants Bank Co., Ltd.

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

**China Banking Regulatory Commission or CBRC:**
China Banking Regulatory Commission

**China Securities Regulatory Commission or CSRC:**
China Securities Regulatory Commission

**China Insurance Regulatory Commission or CIRC:**
China Insurance Regulatory Commission

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

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

**Wing Lung Bank or WLB:**
Wing Lung Bank Limited

**Wing Lung Group:**
Wing Lung Bank and its subsidiaries

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

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

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

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

**CM Securities:**
China Merchants Securities Co., Ltd.

**KPMG Huazhen Certified Public Accountants:**
KPMG Huazhen Certified Public Accountants (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 V for the details in relation to risk management.

# Company Information

## 1.1 Company Profile

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

1.1.2 **Legal Representative:** Li Jianhong
**Authorised Representatives:** Tian Huiyu, Li Hao
**Secretary of the Board of Directors:** Xu Shiqing
**Joint Company Secretaries:** Xu Shiqing, Seng Sze Ka Mee Natalia (FCIS， FCS(PE), FHKIoD, FTIHK)
**Securities Representative:** Wu Jianbing

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

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

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

1.1.6 **Share Listing:**
A Shares: Shanghai Stock Exchange
Abbreviated Name of A Shares: CMB;
Stock Code: 600036
H Shares: SEHK
Abbreviated Name of H Shares: CM BANK;
Stock Code: 03968

1.1.7 **Domestic Auditor:** KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China
Certified Public Accountants for Signature: Wang Lipeng, Wu Zhongming
**International Auditor:** KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Charter Road, Central, 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 Depository for A Shares:
China Securities Depository & Clearing Corporation Ltd., Shanghai Branch

1.1.10 Share Register and Transfer Office as to H Shares:
Computershare Hong Kong Investor Services Ltd.
Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

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

| | |
|---|---|
| Mainland China: | *"China Securities Journal", "Securities Times", "Shanghai Securities News"*<br>website of Shanghai Stock Exchange (www.sse.com.cn),<br>website of the Company (www.cmbchina.com) |
| Hong Kong: | website of SEHK (www.hkex.com.hk),<br>website of the Company (www.cmbchina.com) |

Place of maintenance of annual reports: Office of the Board of Directors of the Company

1.1.12 Other Information about the Company:
Initial registration date: 31 March 1987
Initial registration place: Shenzhen Administration for Industry and Commerce, Shekou Branch
Unified Social Credit Code: 9144030010001686XA

# 1.2 Corporate Overview

Founded in 1987 with its head office in Shenzhen, China, the Company is a national commercial bank with significant scale and strength in China. The Company mainly focuses on the market in China. The Company's distribution network primarily covers China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. For details, please refer to the section headed "Distribution channels" and the section headed "Branches and representative offices". The Company currently has 1,963 domestic and overseas correspondent banks in 111 countries (including China) and regions. The Company was listed on the Shanghai Stock Exchange in April 2002 and on the SEHK in September 2006.

The Company provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Company, such as "All-in-one Card", a multi-function debit card, "All-in-one Net", a comprehensive online banking service platform, the dual-currency credit card, the "Sunflower Wealth Management" services and private banking services, mobile Internet finance services such as Mobile Banking and CMB Life (掌上生活) App, global cash management, bills business, offshore finance and other transaction banking services, as well as asset management, asset custody and investment banking services, have been widely recognised by consumers in China.

In 2015, confronting the decline in economic growth, the Company proactively adapted to changes in external environment, steadily pushed forward its strategic transformation and made concerted effort to maintain a moderate growth momentum. For further details, please refer to the sections headed "Chairman's Statement" and "President's Statement".

1,963

domestic and overseas correspondent banks in 111 countries and regions

# 1.3 Development Strategies, Investment Value and Core Competitiveness

**Development vision:** Creating a blue-chip for the stock market, building a bank that thrives for centuries

**Strategic objective:** Striving to become the best commercial bank in China with international competitive edge

**Strategic positioning:** An innovative bank distinguished by leading profitability, sound business structure, first-class service, steady operation management and excellent brand image

**Development Strategies:**

– Position its retail finance as "one body" and its corporate finance and financial institutions finance as "two wings". The Company will promote the "one body" to play a bigger role in driving the development of the "two wings", while procuring its corporate finance and financial institutions finance to render more support to the growth of its retail finance. Therefore, the Bank will promote the concerted development of "one body" and "two wings" and create its distinguished competitive edge.

– Focus on promoting services and forging an asset-light bank, make breakthroughs through product innovation and service upgrading, and put an emphasis on developing financial businesses such as wealth management and asset management. In addition, the Company endeavours to promote the rapid growth of its non-interest income, further pushes forward structural adjustments and business transformation, improves the capital utilisation rate and reduces capital consumption, while making reasonable efforts to develop its traditional businesses such as deposit taking and lending.

– Adhere to the "customer-centric" business philosophy, focus on exploring high-value customer groups while continuously expanding basic customer base in retail finance, corporate finance and financial institutions finance. Increasingly optimise customer structure and establish a highly professional customer service system.

– Strive to enhance our professional customer-centric management capability and our fast-response market-oriented management capability through system reform and process optimisation and with the support of IT technologies.

– Establish and Improve professional, independent, vertical and comprehensive risk management system and continuously enhance our overall risk management level while focusing on improving our overall risk management capability.

– Rationally expand physical network, innovate and develop e-banking, accelerate the establishment of a powerful multi-channel distribution system with operating synergies.

– Expand and strengthen our presence in domestic market, boost investments in economically developed regions, rationally expand our network into highly potential regions and steadily explore overseas markets by following customers' strategies.

Investment Value and Core Competitiveness:

- The Company persistently follows the operation concept of "keeping balance between efficiency, quality and scale", and has built up a professional team, which boasts good execution and strong capabilities in business innovation and steady operation. In addition, it has established a sound corporate culture of "compliant operation, scientific management and steady development". The operation management of the Bank remains "reasonable, effective, healthy and stable".

- The Company has established a sound corporate governance mechanism and a scientific decision-making system, which are working effectively and in line with the development of the operation and management of commercial banks.

- The Company has a leading position in retail finance business with unique competitive advantage. Our retail finance has formed structural advantages in customers, products, channels and brand, etc., and is growing stronger and bigger.

- The Company has featured corporate finance business up to professional management standard. Our transaction banking business maintains obvious competitive advantages while our investment banking business is gaining competitive strength.

- The financial institutions finance has formed new profit drivers through the dual-engines of macro asset management and financial market transactions. Various businesses such as bills business, asset management business, custody business and financial market business have all achieved healthy development.

- The "three-in-one" cross-border finance platform, comprising overseas institutions (Wing Lung Bank and overseas branches) undergoing relatively rapid global penetration and business expansion, offshore banking units and domestic branches, is producing new growth drivers and competitive edges.

- The comprehensive operation system has been basically established, and cross-segment product innovation and business coordination have been actively promoted, therefore the benefits of strategic synergy and financial synergy have been revealed.

- The comprehensive, modern and scientific risk management system, the capital management system, the operational management system, the information management system, the performance appraisal system and the human resource management system of the Company which have been put in place and the relevant capabilities acquired can guarantee the healthy development of and strong competitiveness in business operation in the long run.

- The Company has been constantly improving its organisational management system, optimising its operation process and improving its management and operation efficiency. Guided by the goals of "professionalism, delayering and intensification", the Company has made initial achievements in the system reform of branches, effectively improving the seamless structural integration between our headquarters and branches.

- The powerful IT team and IT capability as well as the leading IT platform have enabled us to keep abreast with Internet development, innovate products, services, channels and business model, constantly improve the efficiency and quality of customer services and reduce operating costs.

- High quality services that have set the industry benchmark.

- Sound customer base and rapidly increasing high-value customers.

- Continuously growing brand influence.

# 1.4 Awards and Honors Received in 2015

In 2015, the Company won a number of honors in the awarding activities organised by prestigious organisations both at home and abroad, including:

- On 12 February 2015, the Company received five awards, namely the "Best China Credit Fixed Income," the "Best China Credit Derivatives", the "Best China Credit Fixed Income Research", the "Best China Credit Sales "and the "Best China Credit Services" from *Asia Money* magazine (a prestigious international financial magazine), and became the only winning Chinese bank in the fixed income category.

- On 19 March 2015, in the awarding activity named "Excellence in Retail Financial Services in Asia Pacific for 2015" organised by *The Asian Banker* magazine (a prestigious international financial magazine), the Company was awarded the "Best Retail Bank in China" and the "Best Joint Stock Retail Bank in China" once again. The bank had won the "Best Retail Bank in China" award for the sixth time and "the Best Joint Stock Retail Bank in China" award for the eleventh time since its first participation in the awarding activity.

- In April and May 2015, the Company received five awards from *The Asian Banker* magazine (a prestigious international financial magazine), namely the "Best Cash Management Bank in China", the "Best Mobile Banking Technology Achievement Award", the "Best Supply Chain Finance in Asia Pacific Region", the "Best Wealth Management Business in China" and the "Best Intelligent Service Outlet Project in China".

- On 28 May 2015, in the awarding activity named "Golden Wealth Management" organised by *Shanghai Securities News*, the Company received the "Best Credit Card" award for its credit card products, and the "Most Innovative Mobile Internet Financial Products" award for its CMB Life App; and the "Best Trade Finance Bank" award for its trade finance business.

- In May 2015, in the awarding activity organised by *The Asset* magazine (a prestigious international financial magazine), the Company received the "Best Emerging Transaction Banking" award; and also won the "Best Treasury and Working Capital Management (SMEs) in China "award and the "Best Solution (Cross-border Cash Pool Project) in China"award.

- On 26 June 2015, at the press conference for the release of the "Social Responsibility Report for China Banking Industry in 2014" and the awarding ceremony for excellence in social responsibility works organised by China Banking Association, the Company was honoured the "Best Financial Institution in Social Responsibilities of the Year" and received the "Best Green Finance Award for Excellence in Social Responsibilities of the Year" for the fourth consecutive time; and won the "Award for Outstanding Public Charity Programme of the Year" with the campaign titled CMB Caring (愛滿葵園) participated by volunteers across the Bank.

- On 28 June 2015, as valued by the Review Committee for China's 500 Most Valuable Brands, the Company's brand was valued at RMB68.813 billion, and was included in the ninth selection of China's 500 Most Valuable Brands.

- On 1 July 2015, the Company's ranking continued to rise in the list of global top 1,000 banks for 2015 published by *The Banker* magazine (a prestigious international financial magazine). It ranked 28th, up by 8 places from the previous year with its tier 1 capital of USD49.351 billion and sixth among all Chinese banks, only after the big-5 state-owned banks.

- On 8 July 2015, the Company leapt to 29th in Fortune China Top 500 Chinese Companies for 2015, up by 4 places from the previous year with its operating revenue of RMB165.863 billion, and ranked sixth among all Chinese banks, only after the big-5 state-owned banks.

- On 22 July 2015, the Company leapt to the 235th place in Fortune Global Top 500 Companies, up by 115 places from the previous year with its operating revenue of USD45.61 billion, being one of the fastest rising companies.

- In November 2015, the Company was honored the "Best Cross-Border Trade Settlement Award" for its outstanding performance in corporate finance in the special survey of corporate finance towards all the CFOs in China conducted by the "CFO" magazine of the Ministry of Industry and Information Technology.

- On 26 November 2015, at the Tenth Annual Conference for 21st Century Asian Finance held by 21st Century Business Herald, the Company won the "Best Retail Bank in Asia for 2015" award.

- In November 2015, the Company stood out from the 2,800 listed companies, and ranked first in the "Top Ten of Investors' Most Respected 100 Listed Companies in China" selected by the Association of Chinese Listed Companies.

- In December 2015, the Company was ranked among the "Top Ten Excellent Board of Directors of Companies Listed on the Main Board in 2015" selected by 21st Century Media.

# Summary of Accounting Data and Financial Indicators

## 2.1 Key Accounting Data and Financial Indicators

### Operating Results

| (in millions of RMB) | 2015 | 2014 | Changes +/(-)% |
|---|---|---|---|
| Net operating income(Note) | 202,302 | 166,525 | 21.48 |
| Profit before tax | 75,079 | 73,431 | 2.24 |
| Net profit attributable to the Bank's shareholders | 57,696 | 55,911 | 3.19 |

### Per Share

| (RMB) | 2015 | 2014 | Changes +/(-)% |
|---|---|---|---|
| Basic earnings attributable to the Bank's shareholders | 2.29 | 2.22 | 3.15 |
| Diluted earnings attributable to the Bank's shareholders | 2.29 | 2.22 | 3.15 |
| Year-end net assets attributable to the Bank's shareholders | 14.31 | 12.47 | 14.76 |

### Volume Indicators

| (in millions of RMB) | 31 December 2015 | 31 December 2014 | Changes +/(-)% |
|---|---|---|---|
| Total assets | 5,474,978 | 4,731,829 | 15.71 |
| of which: total loans and advances to customers | 2,824,286 | 2,513,919 | 12.35 |
| Total liabilities | 5,113,220 | 4,416,769 | 15.77 |
| of which: total deposits from customers | 3,571,698 | 3,304,438 | 8.09 |
| Total equity attributable to the Bank's shareholders | 360,806 | 314,404 | 14.76 |

Note: Net operating income is the sum of net interest income, net fee and commission income, other net income as well as the gains on investment in associates and joint ventures.

# 2.2 Financial Ratios

| (%) | 2015 | 2014 (restated) | Changes +/(-) |
|---|---|---|---|
| **Profitability indicators** | | | |
| Return on average assets (after tax) attributable to the Bank's shareholders | 1.13 | 1.28 | Decreased by 0.15 percentage point |
| Return on average equity (after tax) attributable to the Bank's shareholders | 17.09 | 19.28 | Decreased by 2.19 percentage points |
| Net interest spread | 2.59 | 2.45 | Increased by 0.14 percentage point |
| Net interest margin | 2.75 | 2.64 | Increased by 0.11 percentage point |
| **As percentage of net operating income** | | | |
| — Net interest income | 67.59 | 70.38 | Decreased by 2.79 percentage points |
| — Net non-interest income | 32.41 | 29.62 | Increased by 2.79 percentage points |
| Cost-to-income ratio (excluding business tax and surcharges) | 27.55 | 30.42 | Decreased by 2.87 percentage points |

| (%) | 31 December 2015 | 31 December 2014 | Changes +/(-) |
|---|---|---|---|
| **Capital adequacy indicators under the weighted approach[1]** | | | |
| Tier 1 capital adequacy ratio | 9.93 | 9.60 | Increased by 0.33 percentage point |
| Capital adequacy ratio | 11.91 | 11.74 | Increased by 0.17 percentage point |
| Equity to total assets | 6.61 | 6.66 | Decreased by 0.05 percentage point |
| **Asset quality indicators** | | | |
| Non-performing loan ratio | 1.68 | 1.11 | Increased by 0.57 percentage point |
| Allowance coverage ratio of non-performing loans[2] | 178.95 | 233.42 | Decreased by 54.47 percentage points |
| Allowance ratio of loans[3] | 3.00 | 2.59 | Increased by 0.41 percentage point |

Notes: (1) As at 31 December 2015, calculated in accordance with the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC in June 2012, the Group's capital adequacy ratio and Tier 1 capital adequacy ratio were 12.57% and 10.83%, respectively, up by 0.66 percentage point and 0.90 percentage point respectively as compared with those calculated in accordance with the weighted approach.

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

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

(4) The Group has re-classified the income from credit card repayment by instalments from fee income to interest income since 2015. The relevant financial indicators on net interest income and net non-interest income have been restated.

# 2.3 Five-year Financial Summary

| (in millions of RMB) | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Results for the year** | | | | | |
| Net operating income | **202,302** | 166,525 | 133,118 | 113,818 | 96,666 |
| Operating expenses | **67,670** | 61,081 | 54,144 | 48,356 | 40,889 |
| Impairment losses on assets | **59,266** | 31,681 | 10,218 | 5,583 | 8,350 |
| Profit before tax | **75,079** | 73,431 | 68,425 | 59,558 | 47,122 |
| Net profit attributable to the Bank's shareholders | **57,696** | 55,911 | 51,743 | 45,268 | 36,129 |
| (RMB) | | | | | |
| **Per share** | | | | | |
| Dividend | **0.69** | 0.67 | 0.62 | 0.63 | 0.42 |
| Basic earnings | **2.29** | 2.22 | 2.30 | 2.10 | 1.67 |
| Diluted earnings | **2.29** | 2.22 | 2.30 | 2.10 | 1.67 |
| Year-end net assets attributable to the Bank's shareholders | **14.31** | 12.47 | 10.53 | 9.28 | 7.65 |
| (in millions of RMB) | | | | | |
| **Year end** | | | | | |
| Share capital | **25,220** | 25,220 | 25,220 | 21,577 | 21,577 |
| Total shareholders' equity | **361,758** | 315,060 | 265,956 | 200,401 | 165,010 |
| Total liabilities | **5,113,220** | 4,416,769 | 3,750,443 | 3,207,698 | 2,629,961 |
| Deposits from customers | **3,571,698** | 3,304,438 | 2,775,276 | 2,532,444 | 2,220,060 |
| Total assets | **5,474,978** | 4,731,829 | 4,016,399 | 3,408,099 | 2,794,971 |
| Net loans and advances to customers[1] | **2,739,444** | 2,448,754 | 2,148,330 | 1,863,325 | 1,604,371 |
| (%) | | | | | |
| **Key financial ratios** | | | | | |
| Return on average assets (after tax) attributable to the Bank's shareholders | **1.13** | 1.28 | 1.39 | 1.46 | 1.39 |
| Return on average equity (after tax) attributable to the Bank's shareholders | **17.09** | 19.28 | 22.22 | 24.78 | 24.17 |
| Cost-to-income ratio | **27.55** | 30.42 | 34.23 | 35.85 | 36.00 |
| Non-performing loan ratio | **1.68** | 1.11 | 0.83 | 0.61 | 0.56 |
| Tier 1 capital adequacy ratio under the weighted approach | **9.93** | 9.60 | 9.27 | 8.34 | 8.22 |
| Capital adequacy ratio under the weighted approach | **11.91** | 11.74 | 11.14 | 11.41 | 11.53 |

Note: (1) Net loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment losses.

# Chairman’s Statement

The deepening of economic transformation and financial reform brought about profound changes to the operation environment of the PRC banking industry in the past year. The increasing pace of reform in interest rates and exchange rates, the further development of financial disintermediation, the drastic volatility in the capital market, and the persistence of the overcapacity problem, all put commercial banks’ profit growth under pressure and led to a higher risk of deterioration in asset quality. The Bank proactively adapted to the “new normal”, vigorously grasped emerging opportunities, overcame challenges, and demonstrated its sound and stable operating style.

In 2015, the Bank realised a net profit attributable to shareholders of the Bank of RMB57.696 billion, representing a year-on-year increase of 3.19%. Return on average equity (ROAE) and return on average asset (ROAA) attributable to shareholders of the Bank were 17.09% and 1.13%, respectively. After complete relaxation of the ceiling for deposit interest rates, the Bank’s net interest margin recorded an increase rather than a decrease as compared with that of the previous year, demonstrating its strong profitability. Meanwhile, the proportion of net non-interest income continued to increase, thanks to the Bank’s initial achievements in business transformation. The cost-to-income ratio decreased continually, and operating efficiency further improved.

A successful bank should have the capability to survive periodic economic fluctuations. From 2015 onwards, China’s real economy has gradually entered into an adjustment period characterised by “reducing overcapacity, destocking, deleveraging, cutting down costs and improving weaknesses”, domestic banks were then exposed to great challenges in their risk management capability. In response to this challenge, the Board persistently improved the risk preference indicator system, further enhanced the monitoring and control of risk management, and fully implemented the dynamic and well-balanced operation concept of “keeping balance between efficiency, quality and scale”. All members of the Board diligently fulfilled their duties to thoroughly study the Bank’s important resolutions and actively offer advice for further development of the Bank. Moreover, they also conducted special studies on the risk management status of certain branches based on actual conditions, traced and analysed the changes in conditions, thoroughly studied the risk management and operation status and effectively put forward risk management and control proposals. In addition, they further improved the vertical audit management system and focused on the rectification of problems identified during the process of audits and the enforcement of accountability for such problems, thereby further enhancing the rectification of problems and the effectiveness of the management systems.

Li Jianhong
Chairman

To overcome periodic economic fluctuations successfully requires a bank to keep its strategic determination, regardless of difficulties and temptations. A successful experience of the Bank drawn from previous practices is to make retail banking business as its strategic direction and stick to it persistently. In 2015, the Bank's retail loan balances and profit before tax both accounted for half of its results under each sector, further consolidating its competitive advantage in retail finance. In addition, corporate finance and financial institutions finance had made breakthroughs in their key business areas with ever-increasing customer bases. And the Bank had further developed a more clearly defined "One Body with Two Wings" strategy and "Asset-light Banking" direction.

A forward-looking strategic deployment is essential for overcoming tough economic cycles. In 2015, the Bank ranked 28th among the global top 1,000 banks by *The Banker* magazine, demonstrating that it has grown into a bank with strong market reputation and influence. Therefore, it is vital for the Bank to identify its core strengths and major challenges, work out its way into the future and make beforehand deployments. Since 2015, the Bank has formulated its new five-year plan according to the requirements of the Board of Directors as its overall deployments in line with the state's "13th Five-year Plan". With a goal to become the "Best Commercial Bank in China", the Bank has made "Retail Banking, Keeping Ahead" a core essence of its strategic objectives and "Innovation-driven Development" a tool to realise the new five-year plan. Shared by the Board of Directors, the management and employees throughout the Bank, the above plan has stemmed from the Bank's long historical experience and will spearhead the Bank's future development.

As for innovation-driven development, it first comes to the innovation of our business models and service modes. In 2015, the Bank, adhering to the customer-centric service concept of "We are here, just for you", vigorously promoted the deployment and innovation of Internet finance by utilising mobile Internet concept and focusing on diverse cross-industry cooperation, and diligently studied and explored new business models in payment and settlement, consumer finance, mobile banking, direct banking and credit verification service. As for improving customer experience, the Bank proactively made innovations based on the perspectives of Internet, mobile handsets and scenarios and launched various new functions including "visual counters" and "cash withdrawal via face-scanning (刷臉取款)", thus offering more convenient and efficient services to its customers.

Our innovation-driven development is also reflected in the market-oriented mechanism innovation. During the year, the Board advocated and promoted the Employee Stock Ownership Scheme of the Bank to bring together the long-term interests of its management, employees and shareholders, and continuously improved the incentive and constraint mechanism, demonstrating its corporate culture of respect, caring and sharing.

In the past year, changes occurred in the shareholdings of major shareholders of the Bank. Looking back at its history, despite previous changes in the structure and shareholdings of its shareholders, the Bank has always adhered to the market-driven operation mechanism and the regulated corporate governance model. These formed the essence and foundation for our growth and success. In future, the market-driven operation mechanism and the management model of the Bank will not be weakened, but rather, they will be enhanced and innovated from time to time, making the market-driven operation mechanism a competitive advantage of the Bank.

In 2015, the Bank actively fulfilled its social responsibilities by firmly committing to social welfare activities. The Bank enhanced financial support to various sectors related to people's livelihood with focus on developing green financial products, promoting green operations and contributing to economic restructuring, transformation and upgrading for the purpose of realising sustainable value creation and value sharing. During the year, the Bank established an online public welfare platform, through which a number of sustainable public welfare programs were initiated in collaborations with One Foundation and China Children and Teenagers' Fund to advocate the idea of "Everybody Goes for Charity"(人人皆可慈善). "More Pleasure from Monthly Donations (月捐悦多)", a small-amount monthly donation program initiated by the Bank that brings many public welfare institutions and clients together, has seen continuous rollout and a stable increase in the number of sign-up clients committed to monthly donations.

The banking industry is expected to confront with severe challenges and tough tests, as China is now gearing up its reform of the supply front, with structural adjustments as the development trend and logics for a period of time in the future. A series of adverse and unfavorable factors, such as decline in the asset demand, narrowing of interest spread, increase in non-performing assets and competition from new financing media, will continue to pose threat to the Bank. As the Bank has been recognised for its high-quality client portfolio and sound risk preference, investors thus have an expectation that it could deliver good performance even when risks are on the rise.

Shouldering the strong expectations from its investors, and exposed to the complicated economic situation and tough business environment, the Bank will continue to accelerate its transformation and seize opportunities in 2016 to capture more market shares through business innovation and increase efficiency through risk management so as to lay a sound foundation for achieving the goal of becoming the best commercial bank in China and continuing to create values for its investors and the society.

China Merchants Bank Co., Ltd.
Chairman

# President's Statement

In 2015, the Bank unswervingly implemented various requirements of the regulatory authorities and the Board of Directors, fully promoted the building of an asset-light bank and the implementation of the "One Body with Two Wings" strategy, further highlighted its features and enhanced brand image, thus reinforcing its position as a forerunner in business transformation.

As at the end of 2015, total assets of the Group amounted to RMB5,474.978 billion, up by 15.71% from the beginning of the year; total deposits from customers amounted to RMB3,571.698 billion, up by 8.09% from the beginning of the year; and total loans and advances to customers amounted to RMB2,824.286 billion, up by 12.35% from the beginning of the year. Net profit attributable to the shareholders of the Bank amounted to RMB57.696 billion, up by 3.19% year-on-year. The return on average net equity (after tax) attributable to the shareholders of the Bank was 17.09%, down by 2.19 percentage points year-on-year. Under the advanced approach, the capital adequacy ratio was 12.57%, up by 0.19% as compared with that at the beginning of the year. The non-performing loan ratio was 1.68%, the allowance coverage ratio of non-performing loans was 178.95% and the allowance ratio of loans was 3.00%.

In 2015, the Bank steadfastly pursued its strategic transformation, making its preliminary achievements in "Asset-light Banking". Our assets have become more "light". We made initial success in structural adjustments despite various challenges and difficulties. We significantly scaled down risk assets in areas including the overcapacity industries, while increasing our allocations in low-risk and quality retail assets such as credit-card and home mortgages. Balance of our retail loans accounted for nearly half of our total loans, and the proportion of our corporate loans to customers with high credit rating increased by 6.1 percentage points, thus further optimising our asset structure. Our liabilities have become more "light". Persistently following the operating principle where "assets determine liabilities", we vigorously optimised the mechanism for pricing of deposits and differentiated authorisation, and significantly reduced the proportion of high-cost structured deposits. As a result, we saw a rise in the proportion of demand deposits and an increase of 11 basis points in net interest margin, effectively offsetting the adverse impact of several interest rate cuts during the year. Our income has become more "light". The proportion of our net non-interest income increased to 32.41%, and the cost-income ratio fell to a historical low of 27.55%.

In 2015, under the counter-cyclical pressure, the Bank adhered to differentiate itself in the tough operating environment by capitalising on the "One Body with Two Wings" strategy. We continued to boost our retail finance business, making the "one body" a firm cornerstone for the Bank to survive the tough operating environment. The proportion of profit before tax of retail banking reached 46.34%, up by 6.70 percentage points year-on-year. The bank maintained its lead in a number of areas including private banking, wealth management and credit cards businesses. We grasped opportunities to penetrate into emerging businesses, making the "two wings" the powerful "dual-engine" for the Bank to surf through high waves. Playing a leading role in transaction banking among its peers, the Bank saw a significant increase in the number of core customers in supply chains and the amount of settlement deposits. The market share of cross-border settlement and sales of foreign exchange was 4.48%, ranking first among small and medium-sized banks nationwide. Our investment banking and asset management businesses have become a dual-driver for further growth and grasped a number of market opportunities arising out of mergers and acquisitions and restructuring, capital market, government-guided funds and emerging financing business. The business of the privatisation of overseas-listed Chinese enterprises has become an industry benchmark, with bond underwriting business ranking first among the domestic small- and medium- sized banks. We ranked second among our peers in terms of the volume of asset management. The volume of asset custody amounted to RMB7.16 trillion. We outperformed our peers in several key indicators of bills business. Profits form financial markets business doubled for two consecutive years.

Tian Huiyu
President

In 2015, the Bank established the Internet finance development strategy of "building service platforms, connecting to external traffic and conducting traffic operation (內建平台、 外接流量、 流量經營)". Our open mobile finance platform has served a sizable number of users, the APPs of Mobile Banking and CMB Life (掌上生活) were both upgraded to the next generation, and the registered members and transaction volume of Small Business E Home continued to surge. "Zhao Ying Tong (招贏通)", a financial transaction platform for financial institutions, became the first-mover in seizing market opportunities, and CMB-China Unicom Consumption Finance Co., Ltd. (招聯消費金融有限公司) officially opened for business. Our cooperation with third-party platforms was also initiated during the year. At present, we have established comprehensive strategic partnership with various Internet companies and telecommunication operators including Didi Taxi (滴滴出行), China Mobile and China Unicom. Riding on the trend of online payment, we have established "All-in-one Net", an online light account cross-bank payment platform, and "All-in-one Mobile (一閃通)", an offline payment platform. In addition, we proactively embraced various cutting-edge technologies to launch the new payment function of "cash withdrawal via face-scanning (刷臉取款)" and Apple Pay, vigorously improved Internet users' experience of online payment, and timely launched the "Free Online Transfer" service to implement inclusive finance, which received warm applause from the public.

In 2015, in response to changes in customer and market demands, the Bank geared up the reform of operation systems and processes, and began the second-phase reform across the Bank based on the experience of the system reform of the first batch of 11 pilot branches, thus further optimised the organisational structure. In addition, we gradually promoted the streamlining of the "customer-centric" end-to-end operation processes, constantly developed and optimised the models and tools for risk management, thus putting risk monitoring and pre-warning management in place, optimised the unified risk exposure management mechanism, promoted post-disbursement management, and improved provision management, all contributing to protection and control of asset quality in a multi-dimensional way. We carried out inspections and audits throughout our business operation, thus effectively improved our compliance management. We vigorously promoted the reform of human resources, proactively implemented measures for management of assets and debts, and established the decision-making mechanism for investment banking and asset management.

In 2015, the performance of a number of our strategic emerging businesses known as light assets business ran in parrel with large-sized state-owned banks despite our smaller volume of assets, thereby differentiating us from our peers in terms of the "Asset-light Banking". We so far have received positive market response and trust from investors. In 2015, the Bank was a frontrunner among listed banks in terms of cumulative increase in share price and the price/book ratio of its A shares, and ranked first in the "Top Ten of investors' Most Respected 100 Listed Companies in China". Our achievements in 2015 were attributable to the hard work of our staff and the unwavering support from our customers, investors and the community. On behalf of the Bank, I would like to extend my sincere gratitude to all who care about and support the development of the Bank.

2016 is the starting year of the "13th Five-year Plan". Facing the complicated operating environment at home and abroad, we will continuously implement the transformation strategies of "Asset-light Banking" and "One Body with Two Wings", respond flexibly to the changing environment and grasp market opportunities arising from economic restructuring, and persistently stick to organic growth which places equal emphasis on strategic transformation and development results. We will adhere to our operation strategies and strive to first work out a path of characterised business transformation of Chinese commercial banks in the next three to five years.

China Merchants Bank Co., Ltd.
President

Liu Yuan
Chairman of the Board of Supervisors

# Report of the Board of Directors

## 5.1 Analysis of Overall Operation

In 2015, the domestic economy has entered the "New Normal", characterised by complicated macroeconomic conditions, great downward pressure and frequent occurrence of risks. Under the background of economic slowdown, interest rate liberalisation and faster opening up of the financial industry, the Group continued to implement its transformation strategies of "Asset-light Banking" and "One Body with Two Wings", forged forward with structural adjustments and maintained a sound development momentum, which are reflected in the following aspects:

Slight increase in earnings. In 2015, the Group realised a net interest income of RMB136.729 billion, representing a year-on-year increase of 16.66%; the net non-interest income was RMB65.573 billion, representing a year-on-year increase of 32.95%; however, affected by significant increase in impairment losses on assets, the net profit attributable to the shareholders of the Bank amounted to RMB57.696 billion, representing a year-on-year increase of 3.19%. The return on average asset (ROAA) and return on average equity (ROAE) attributable to the shareholders of the Bank were 1.13% and 17.09%, respectively, down by 0.15 percentage point and 2.19 percentage points from the previous year, respectively.

The balance sheet expanded steadily. As at the end of 2015, the Group's total assets amounted to RMB5,474.978 billion, representing an increase of 15.71% as compared with the beginning of the year. The total loans and advances to customers amounted to RMB2,824.286 billion, representing an increase of 12.35% as compared with the beginning of the year. Total liabilities of the Group amounted to RMB5,113.220 billion, representing an increase of 15.77% as compared with the beginning of the year. Total deposits from customers amounted to RMB3,571.698 billion, representing an increase of 8.09% as compared with the beginning of the year.

The non-performing loans increased while the allowance coverage ratio remained stable. As at the end of 2015, the Group had a balance of non-performing loans of RMB47.410 billion, representing an increase of RMB19.493 billion as compared with the beginning of the year. The non-performing loan ratio was 1.68%, up by 0.57 percentage point as compared with the beginning of the year. The non-performing loan allowance coverage ratio was 178.95%, representing a decrease of 54.47 percentage points as compared with the beginning of the year.

# 5.2 Analysis of Income Statement

## 5.2.1 Financial highlights

| (in millions of RMB) | 2015 | 2014 (restated) |
|---|---|---|
| Net interest income | **136,729** | 117,202 |
| Net fee and commission income | **53,419** | 39,494 |
| Other net income | **12,018** | 9,671 |
| Operating expenses | **(67,670)** | (61,081) |
| Provision for insurance claims | **(287)** | (332) |
| Gains on investment in associates | **2** | 2 |
| Gains on investment in joint ventures | **134** | 156 |
| Impairment losses on assets | **(59,266)** | (31,681) |
| Profit before tax | **75,079** | 73,431 |
| Income tax | **(17,061)** | (17,382) |
| Net profit | **58,018** | 56,049 |
| Net profit attributable to the Bank's shareholders | **57,696** | 55,911 |

In 2015, the Group realised a profit before tax of RMB75.079 billion, representing an increase of 2.24% as compared with 2014. The effective income tax rate was 22.72%, representing a decrease of 0.95 percentage point as compared with 2014.

The following table sets out the impact of changes in major income/loss items of the Group on its profit before tax for 2015.

### Changes in profit before tax

| (in millions of RMB) | |
|---|---|
| **Profit before tax for 2014** | **73,431** |
| Changes in 2015 | |
| Net interest income | 19,527 |
| Net fee and commission income | 13,925 |
| Other net income | 2,347 |
| Operating expenses | (6,589) |
| Provision for insurance claims | 45 |
| Impairment losses on assets | (27,585) |
| Gains on investment in associates and joint ventures | (22) |
| **Profit before tax for 2015** | **75,079** |

## 5.2.2 Operating income

In 2015, the net operating income of the Group was RMB202.302 billion, representing an increase of 21.48% as compared with 2014. The net interest income accounted for 67.59% of the total net operating income, representing a decrease of 2.79 percentage points as compared with 2014; the net non-interest income accounted for 32.41% of the total net operating income, representing an increase of 2.79 percentage points as compared with 2014.

The following table sets out the composition of the net operating income of the Group in the corresponding period of the past five years.

| % | 2015 | 2014 (restated) | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Net interest income | 67.59 | 70.38 | 74.30 | 77.65 | 78.94 |
| Net fee and commission income | 26.40 | 23.72 | 21.92 | 17.34 | 16.17 |
| Other net income | 5.94 | 5.81 | 3.71 | 4.96 | 4.83 |
| Gains on investment in associates and joint ventures | 0.07 | 0.09 | 0.07 | 0.05 | 0.06 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

## 5.2.3 Net interest income

In 2015, the Group's net interest income amounted to RMB136.729 billion, representing an increase of 16.66% as compared with 2014.

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 period indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

| | 2015 | | | 2014 (restated) | | |
|---|---|---|---|---|---|---|
| (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 | 2,691,458 | 159,885 | 5.94 | 2,400,646 | 150,929 | 6.29 |
| Investments | 1,174,151 | 48,175 | 4.10 | 873,418 | 37,749 | 4.32 |
| Balances with the central bank | 604,403 | 8,598 | 1.42 | 563,026 | 8,318 | 1.48 |
| Placements with banks and other financial institutions | 498,585 | 18,064 | 3.62 | 603,612 | 31,040 | 5.14 |
| Total | 4,968,597 | 234,722 | 4.72 | 4,440,702 | 228,036 | 5.14 |

| (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 | 3,350,298 | 60,448 | 1.80 | 3,056,634 | 64,102 | 2.10 |
| Placements from banks and other financial institutions | 1,050,196 | 29,339 | 2.79 | 960,520 | 42,669 | 4.44 |
| Issued debts | 171,336 | 7,150 | 4.17 | 92,385 | 3,921 | 4.24 |
| Borrowings from the central bank | 30,612 | 1,056 | 3.45 | 4,000 | 142 | 3.55 |
| Total | 4,602,442 | 97,993 | 2.13 | 4,113,539 | 110,834 | 2.69 |
| Net interest income | / | 136,729 | / | / | 117,202 | / |
| Net interest spread | / | / | 2.59 | / | / | 2.45 |
| Net interest margin | / | / | 2.75 | / | / | 2.64 |

In 2015, affected by the interest rate cuts, the average yield of the interest-earning assets was 4.72%, while the average cost ratio of interest-bearing liabilities was 2.13%, down by 42 basis points and 56 basis points respectively as compared with the previous year. However, benefiting from the constant optimisation of the liabilities structure, the cost ratio of interest-bearing liabilities declined remarkably. In 2015, the net interest margin and net interest spread of the Group were 2.75% and 2.59%, respectively, up by 11 basis points and 14 basis points respectively as compared with 2014.

The following table sets forth, for the periods indicated, the breakdown of changes in interest income and interest expense due to changes in volume and interest rate of the Group. Changes in volume are measured by changes in average balances (daily average balances), while changes in interest rate are measured by changes in average interest rate; changes in interest income and expense caused by changes in volume and interest rate together are accounted for as the amount of changes in interest income and expense caused by changes in volume.

| | 2015 compared with 2014 | | |
|---|---|---|---|
| | Increase/(decrease) due to | | Net increase/ |
| (in millions of RMB) | Volume | Interest rate | (decrease) |
| **Assets** | | | |
| Loans and advances | 17,358 | (8,402) | 8,956 |
| Investments | 12,348 | (1,922) | 10,426 |
| Balances with the central bank | 618 | (338) | 280 |
| Placements with banks and other financial institutions | (3,801) | (9,175) | (12,976) |
| **Changes in interest income** | 26,523 | (19,837) | 6,686 |
| **Liabilities** | | | |
| Deposits from customers | 5,516 | (9,170) | (3,654) |
| Placements from banks and other financial institutions | 2,519 | (15,849) | (13,330) |
| Issued debts | 3,294 | (65) | 3,229 |
| Borrowings from the central bank | 918 | (4) | 914 |
| **Changes in interest expense** | 12,247 | (25,088) | (12,841) |
| **Changes in net interest income** | 14,276 | 5,251 | 19,527 |

The following table sets out the average balances of assets and liabilities, interest income/interest expense and annualised 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 daily balances.

| (in millions of RMB, except for percentages) | July to September 2015 | | | October to December 2015 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest income | Annualised average yield (%) | Average balance | Interest income | Annualised average yield (%) |
| **Interest-earning assets** | | | | | | |
| Loans and advances | 2,709,322 | 40,190 | 5.89 | 2,821,656 | 38,983 | 5.48 |
| Investments | 1,293,552 | 12,852 | 3.94 | 1,259,927 | 12,074 | 3.80 |
| Balances with the central bank | 640,596 | 2,218 | 1.37 | 578,060 | 2,047 | 1.40 |
| Placements with banks and other financial institutions | 514,153 | 3,278 | 2.53 | 433,144 | 4,721 | 4.32 |
| **Total** | **5,157,623** | **58,538** | **4.50** | **5,092,787** | **57,825** | **4.50** |

| (in millions of RMB, except for percentages) | July to September 2015 | | | October to December 2015 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest expense | Annualised average cost (%) | Average balance | Interest expense | Annualised average cost (%) |
| **Interest-bearing liabilities** | | | | | | |
| Deposits from customers | 3,473,271 | 14,859 | 1.70 | 3,400,699 | 13,413 | 1.56 |
| Placements from banks and other financial institutions | 1,150,982 | 6,590 | 2.27 | 1,010,954 | 6,367 | 2.50 |
| Issued debts | 154,120 | 1,796 | 4.62 | 232,183 | 2,095 | 3.58 |
| Borrowings from the central bank | 27,804 | 238 | 3.40 | 44,677 | 380 | 3.37 |
| **Total** | **4,806,177** | **23,483** | **1.94** | **4,688,513** | **22,255** | **1.88** |
| **Net interest income** | / | 35,055 | / | / | 35,570 | / |
| **Net interest spread** | / | / | 2.56 | / | / | 2.62 |
| **Net interest margin** | / | / | 2.70 | / | / | 2.77 |

In the fourth quarter of 2015, the net interest spread of the Group was 2.62%, up by 6 basis points as compared with the third quarter of 2015. The annualised average yield of the interest-earning assets was 4.50%, unchanged as compared with the third quarter of 2015 while the annualised average cost ratio of interest-bearing liabilities was 1.88%, down by 6 basis points as compared with the third quarter of 2015.

In the fourth quarter of 2015, the net interest margin of the Group was 2.77%, up by 7 basis points as compared with the third quarter of 2015.

## 5.2.4 Interest income

In 2015, the Group recorded an interest income of RMB234.722 billion, representing an increase of 2.93% as compared with that of the previous year, mainly due to the increase in the volume of interest-earning assets. Interest income from loans and advances continued to be the biggest component of the interest income of the Group.

### Interest income from loans and advances

In 2015, the interest income from loans and advances of the Group was RMB159.885 billion, representing an increase of 5.93% as compared with the previous year.

The following table sets forth, for the periods indicated, the average balances, interest income and average yield of different types of loans and advances of the Group.

| | 2015 | | | 2014 (restated) | | |
|---|---|---|---|---|---|---|
| (in millions of RMB, excluding percentages) | Average balance | Interest income | Average yield (%) | Average balance | Interest income | Average yield (%) |
| Corporate loans | 1,483,592 | 76,943 | 5.19 | 1,448,378 | 82,168 | 5.67 |
| Retail loans | 1,087,562 | 78,076 | 7.18 | 860,497 | 63,630 | 7.39 |
| Discounted bills | 120,304 | 4,866 | 4.04 | 91,772 | 5,131 | 5.59 |
| Loans and advances | 2,691,458 | 159,885 | 5.94 | 2,400,646 | 150,929 | 6.29 |

In 2015, from the perspective of the terms of loans and advances of the Company, the average balance of short-term loans was RMB1,317.558 billion, with the interest income amounting to RMB87.863 billion, and the average yield reaching 6.67%; the average balance of medium to long-term loans was RMB1,140.707 billion, with the interest income amounting to RMB64.167 billion, and the average yield reaching 5.63%. The average yield of short-term loans was higher than that of medium to long-term loans. It was mainly attributable to the relatively higher yield of credit card overdrafts and micro enterprise loans among short-term loans.

### Interest income from investments

In 2015, the interest income from investments of the Group increased to RMB48.175 billion, up by 27.62% as compared with the previous year, and the average yield of investments was 4.10%, down by 0.22 percentage point as compared with the previous year.

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

In 2015, the interest income from placements with banks and other financial institutions of the Group was RMB18.064 billion, down by 41.80% as compared with the previous year, and the average yield for placements with banks and other financial institutions was 3.62%, down by 1.52 percentage points as compared with the previous year, which was primarily attributable to the decrease in the volume of financial assets held under resale agreements and the yield of inter-bank lending.

## 5.2.5 Interest expense

In 2015, the interest expense of the Group was RMB97.993 billion, down by 11.59% as compared with the previous year, which was primarily attributable to the decrease in the cost ratio of interest-bearing liabilities.

### Interest expense on deposits from customers

In 2015, the Group's interest expense on deposits from customers was RMB60.448 billion, down by 5.70% as compared with the previous year, which was primarily attributable to the optimisation of the structure of deposits from customers, resulting in a decrease of 0.30 percentage point in the average cost ratio as compared with the previous year.

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| (in millions of RMB, excluding percentages) | Average balance | Interest expense | Average cost ratio (%) | Average balance | Interest expense | Average cost ratio (%) |
| Deposits from corporate customers | | | | | | |
| Demand | 1,027,006 | 6,965 | 0.68 | 864,524 | 6,186 | 0.72 |
| Time | 1,211,447 | 39,038 | 3.22 | 1,169,137 | 41,381 | 3.54 |
| **Subtotal** | **2,238,453** | **46,003** | **2.06** | 2,033,661 | 47,567 | 2.34 |
| Deposits from retail customers | | | | | | |
| Demand | 711,460 | 2,971 | 0.42 | 588,039 | 2,799 | 0.48 |
| Time | 400,385 | 11,474 | 2.87 | 434,934 | 13,736 | 3.16 |
| **Subtotal** | **1,111,845** | **14,445** | **1.30** | 1,022,973 | 16,535 | 1.62 |
| **Total deposits from customers** | **3,350,298** | **60,448** | **1.80** | 3,056,634 | 64,102 | 2.10 |

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

In 2015, the interest expense on placements from banks and other financial institutions of the Group amounted to RMB29.339 billion, representing a decrease of 31.24% as compared with the previous year, which was primarily attributable to the decrease in the interest rate of inter-bank borrowing.

### Interest expense on issued debts

In 2015, the interest expense on issued debts of the Group amounted to RMB7.150 billion, representing an increase of 82.35% as compared with the previous year, which was primarily attributable to the increase in the volume of issued debts.

## 5.2.6 Net non-interest income

In 2015, the Group recorded a net non-interest income of RMB65.573 billion, representing an increase of RMB16.250 billion or 32.95% as compared with the previous year. Specifically, the net non-interest income from retail banking business amounted to RMB26.780 billion, representing an increase of 50.81% over the previous year and accounting for 40.84% of the Group's net non-interest income; the net non-interest income from corporate banking business amounted to RMB16.235 billion, representing a decrease of 1.99% over the previous year and accounting for 24.76% of the Group's net non-interest income. The net non-interest income of financial institutions business amounted to RMB14.982 billion, representing an increase of 55.66% over the previous year and accounting for 22.85% of the Group's net non-interest income. The net non-interest income from other businesses amounted to RMB7.576 billion, representing an increase of 40.95% over the previous year and accounting for 11.55% of the Group's net non-interest income.

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

| (in millions of RMB) | 2015 | 2014 (restated) |
|---|---|---|
| Fee and commission income | 57,798 | 43,341 |
| Less: Fee and commission expense | (4,379) | (3,847) |
| Net fee and commission income | 53,419 | 39,494 |
| Other net non-interest income | 12,154 | 9,829 |
| Total net non-interest income | 65,573 | 49,323 |

## 5.2.7 Net fee and commission income

In 2015, net fee and commission income of the Group amounted to RMB53.419 billion, increased by 35.26% as compared with that of the previous year, which was primarily attributable to the increase in agency service fees, commissions from custody and other trustee businesses.

The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Group.

| (in millions of RMB) | 2015 | 2014 (restated) |
|---|---|---|
| Fee and commission income | 57,798 | 43,341 |
| Bank card fees | 9,562 | 7,692 |
| Settlement and clearing fees | 3,799 | 4,116 |
| Agency service fees | 13,681 | 7,017 |
| Commissions from credit commitment and loan business | 4,215 | 4,204 |
| Commissions from custody and other trustee businesses | 18,644 | 13,033 |
| Others | 7,897 | 7,279 |
| Fee and commission expense | (4,379) | (3,847) |
| Net fee and commission income | 53,419 | 39,494 |

Bank card fees increased by RMB1.870 billion or 24.31% as compared with the previous year, which was primarily attributable to the increase in the POS income.

Settlement and clearing fees decreased by RMB317 million or 7.70% as compared with the previous year, which was primarily attributable to the decrease in the settlement income of letter of credit.

Agency service fees increased by RMB6.664 billion or 94.97% as compared with the previous year, which was primarily attributable to the rapid increase in the fees from agency distribution of funds and insurance policies.

Commission income from credit commitment and loan business increased by RMB11 million or 0.26% as compared with the previous year.

Commission income from custody and other trustee businesses increased by RMB5.611 billion or 43.05% as compared with the previous year, which was primarily attributable to the rapid growth in the income from wealth management businesses such as the entrusted wealth management products which amounted to RMB8.913 billion, representing an increase of 42.75% as compared with the previous year.

Other fee and commission income increased by RMB618 million or 8.49% as compared with the previous year.

## 5.2.8 Other net income

In 2015, other net income of the Group was RMB12.018 billion, representing a year-on-year increase of 24.27%, which was mainly attributable to the increase in gains from changes in the fair value of financial instruments held for trading and the disposal of available-for-sale financial assets.

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

| (in millions of RMB) | 2015 | 2014 (restated) |
|---|---|---|
| Net trading profit/(loss) | | |
| – Foreign exchange | 2,398 | 2,467 |
| – Securities, derivatives and other trading activities | 3,073 | 1,618 |
| Net gains/(losses) on financial instruments designated at fair value through profit or loss | (118) | (359) |
| Net gains/(losses) on investment in available-for-sale financial assets | 611 | (145) |
| Gains on investment in funds | 4 | 21 |
| Rental income | 534 | 476 |
| Bills spread income | 4,519 | 4,238 |
| Insurance operating income | 498 | 475 |
| Net gains on trading of precious metal | 188 | 539 |
| Others | 311 | 341 |
| Other net income in total | 12,018 | 9,671 |

## 5.2.9 Operating expense

In 2015, the Group's operating and administrative expense amounted to RMB67.670 billion, representing an increase of 10.79% as compared with 2014. The cost-to-income ratio was 27.55%, representing a decrease of 2.87 percentage points as compared with the previous year. By taking various measures such as improvement of budgeting method for expenses, optimisation of resources allocation and enhancement of daily expense management, the Group further enhanced expense management, effectively improved cost efficiency and better utilised operating expenses for business development. As such, the expense management and control achieved fruitful results, leading to a slower increase in operating expenses compared with that of operating income. Staff costs increased by 7.59% as compared with that of 2014 due to the increase in headcount. Other general and administrative expenses increased by 12.51% as compared with that of 2014, and depreciation charges and rental expenses increased by 15.59% and 14.72% respectively as compared with those of 2014. The Company has always attached great importance to investments in research and development. In 2015, our research and development expenses amounted to RMB4.133 billion, representing an increase of 6.69% as compared with that of 2014.

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

| (in millions of RMB) | 2015 | 2014 (restated) |
|---|---|---|
| Staff costs | 31,394 | 29,179 |
| Business tax and surcharges | 11,929 | 10,425 |
| Depreciation of fixed assets and investment properties | 4,086 | 3,535 |
| Rental expenses | 3,842 | 3,349 |
| Other general and administrative expenses | 16,419 | 14,593 |
| **Total operating expenses** | 67,670 | 61,081 |

## 5.2.10 Impairment losses on assets

In 2015, impairment losses on assets of the Group were RMB59.266 billion, representing an increase of 87.07% as compared with that of 2014. The following table sets forth, for the periods indicated, the principal components of impairment losses on the assets of the Group.

| (in millions of RMB) | 2015 | 2014 (restated) |
|---|---|---|
| Allowances for asset impairment charged/(reversed) on | | |
| – Loans and advances | 57,507 | 31,254 |
| – Investments | 1,002 | 35 |
| – Amounts due from banks and other financial institutions | 257 | 57 |
| – Other assets | 500 | 335 |
| **Total impairment losses on assets** | 59,266 | 31,681 |

Impairment losses on loans was the largest component of impairment losses on assets. In 2015, impairment losses on loans was RMB57.507 billion, representing an increase of 84.00% as compared with the previous year, which was mainly due to increased provision for deteriorated assets and additional provision for the heightened credit risks associated with overcapacity industries amidst economic downturn. For details of the provision for impairment losses on loans, please refer to the section headed "Loan quality analysis" in this chapter.

# 5.3 Analysis of Balance Sheet

## 5.3.1 Assets

As at 31 December 2015, the total assets of the Group amounted to RMB5,474.978 billion, representing an increase of 15.71% as compared with the end of 2014, which was mainly attributable to the increase in loans and advances to customers and investment receivables of the Group.

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

| (in millions of RMB, excluding percentages) | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Amount | Percentage of the total (%) | Amount | Percentage of the total (%) |
| Total loans and advances to customers | 2,824,286 | 51.59 | 2,513,919 | 53.13 |
| Provision for impairment losses on loans | (84,842) | (1.55) | (65,165) | (1.38) |
| Net loans and advances to customers | 2,739,444 | 50.04 | 2,448,754 | 51.75 |
| Investments | 1,438,017 | 26.27 | 996,217 | 21.05 |
| Cash, precious metal and balances with the central bank | 600,441 | 10.97 | 670,007 | 14.16 |
| Balances with banks and other financial institutions | 63,779 | 1.16 | 55,986 | 1.18 |
| Inter-bank lending and financial assets purchased under resale agreements | 529,617 | 9.67 | 469,065 | 9.91 |
| Interest receivable | 24,934 | 0.46 | 23,560 | 0.50 |
| Investment in associates and joint ventures | 2,786 | 0.05 | 1,484 | 0.03 |
| Fixed assets | 31,835 | 0.58 | 27,445 | 0.58 |
| Investment properties | 1,708 | 0.03 | 1,684 | 0.04 |
| Intangible assets | 3,595 | 0.07 | 3,292 | 0.07 |
| Deferred tax assets | 16,020 | 0.29 | 10,291 | 0.22 |
| Goodwill | 9,954 | 0.18 | 9,953 | 0.21 |
| Other assets | 12,848 | 0.23 | 14,091 | 0.30 |
| **Total assets** | 5,474,978 | 100.00 | 4,731,829 | 100.00 |

### 5.3.1.1 Loans and advances

As at 31 December 2015, total loans and advances of the Group amounted to RMB2,824.286 billion, representing an increase of 12.35% as compared with the end of the previous year; total loans and advances accounted for 51.59% of the total assets, representing a decrease of 1.54 percentage points as compared with the end of the previous year.

The following table sets forth, as at the dates indicated, the loans and advances to customers of the Group by product type.

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| (in millions of RMB, excluding percentages) | Amount | Percentage of the total (%) | Amount | Percentage of the total (%) |
| Corporate loans | 1,507,770 | 53.39 | 1,467,585 | 58.38 |
| Discounted bills | 89,815 | 3.18 | 75,007 | 2.98 |
| Retail loans | 1,226,701 | 43.43 | 971,327 | 38.64 |
| Total loans and advances to customers | 2,824,286 | 100.00 | 2,513,919 | 100.00 |

*Corporate loans*

As at the end of 2015, the Group's total corporate loans amounted to RMB1,507.770 billion, representing an increase of 2.74 % as compared with the end of the previous year. Total corporate loans accounted for 53.39% of total loans and advances to customers, representing a decrease of 4.99 percentage points as compared with the end of the previous year. In 2015, the corporate loans of the Group were granted mainly to support the development of the real economy by satisfying the diversified financing needs of customers. The Group increased loans granted to strategic customers and quality credit projects on the premise of effective control over credit risks, and further optimised the corporate loan structure while maintaining a control over total loan volume and conducting structural adjustment.

*Discounted bills*

As at 31 December 2015, discounted bills amounted to RMB89.815 billion, representing an increase of 19.74% as compared with the end of the previous year. As for the development of its discounted bills business, based on the loan granting schedule, the Group made flexible adjustments to the scale of bills financing, and increased the overall return on bill assets by taking a number of measures such as optimisation of structure, centralisation of operation, acceleration of circulation and profit through volume.

*Retail loans*

As at 31 December 2015, retail loans amounted to RMB1,226.701 billion, representing an increase of 26.29% as compared with the end of the previous year. Retail loans accounted for 43.43% of total loans and advances, up by 4.79 percentage points as compared with the end of the previous year. During the reporting period, the Group further reinforced its retail customer base of micro enterprises. In order to meet market demands and put credit risk under control, the Group moderately increased the amount of retail loans, which were primarily residential mortgage loans and credit card loans with some retail consumption loans, thus further optimising loan structure.

### 5.3.1.2 Investments

*Investments*

Investments of the Group are composed of listed and unlisted financial instruments denominated in Renminbi and foreign currencies, including financial assets designated at fair value through profit or loss, derivative financial assets, available-for-sale financial assets, held-to-maturity investments and investment receivables.

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

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| (in millions of RMB, excluding percentages) | Amount | Percentage of the total (%) | Amount | Percentage of the total (%) |
| Financial assets held for trading | 50,809 | 3.53 | 33,022 | 3.31 |
| Financial assets designated at fair value through profit or loss | 8,272 | 0.57 | 7,168 | 0.72 |
| Derivative financial assets | 10,176 | 0.71 | 9,315 | 0.94 |
| Available-for-sale financial assets | 299,559 | 20.83 | 278,526 | 27.96 |
| Held-to-maturity investments | 353,137 | 24.56 | 259,434 | 26.04 |
| Investment receivables | 716,064 | 49.80 | 408,752 | 41.03 |
| **Total investments** | 1,438,017 | 100.00 | 996,217 | 100.00 |

*Financial assets held for trading*

As at 31 December 2015, the net value of financial assets held for trading of the Group was RMB50.809 billion, representing an increase of 53.86% as compared with that at the end of the previous year. Such investments were made mainly to seize the opportunities of transactions in the bond market. In 2015, China's macro-economy growth and inflation continued to hit new lows, and the acceleration of IPOs and the replacement of local debts posed impact on short-term liquidity and medium and long-term asset allocation demands, respectively. Under this situation, the central bank lowered the deposit reserve ratios and the lending benchmark interest rates appropriately to replenish market liquidity, and completed the full process of interest rate liberalisation. The interbank market interest rates continued the downward trend shown in 2014, in which the interest rates of medium- and long-term bonds continued to decline and the interest spreads of highly-rated credits kept narrowing. Based on its intensified market research, the Group adopted the aggressive trading strategy in line with market situations. The Group proactively conducted spread transactions of bonds and interest rate swaps while moderately expanded trading exposure, thereby achieving relatively better trading revenue.

The following table sets forth the components of the portfolio of financial assets held for trading of the Group.

| (in millions of RMB) | 31 December 2015 | 31 December 2014 (restated) |
|---|---|---|
| Bonds issued by the PRC government | 17,543 | 5,351 |
| Bonds issued by policy banks | 9,622 | 6,165 |
| Bonds issued by commercial banks and other financial institutions | 5,860 | 6,458 |
| Others(Note) | 17,784 | 15,048 |
| **Total financial assets held for trading** | 50,809 | 33,022 |

Note: including other bonds, equity investments and fund investments and paper precious metal.

*Financial assets designated at fair value through profit or loss*

The following table sets forth the components of the portfolio of financial assets designated at fair value through profit or loss of the Group.

| (in millions of RMB) | 31 December 2015 | 31 December 2014 (restated) |
|---|---|---|
| Bonds issued by the PRC government | 304 | 299 |
| Bonds issued by policy banks | 3,874 | 3,970 |
| Bonds issued by commercial banks and other financial institutions | 655 | 766 |
| Other bonds | 3,439 | 2,133 |
| Total financial assets designated at fair value through profit or loss | 8,272 | 7,168 |

*Available-for-sale financial assets*

As at 31 December 2015, the net value of available-for-sale financial assets of the Group was RMB299.559 billion, representing an increase of 7.55% as compared with that at the end of the previous year. This category of investments was made mainly to improve operation performance.

In 2015, in order to stabilise economic growth and lower financing cost for real economy, the central bank made several cuts to the deposit reserve ratios and the benchmark lending interest rates, and adjusted market liquidity by using such monetary policy tools as MLF and PSL since the beginning of the year, leading to improvement in the inter-bank market liquidity as compared with 2014. In response to the market trends, the Group took opportunities to increase its investments primarily in interest-bearing bonds and bonds with high credit ratings, and moderately extended bond duration, thus optimising the structure of assets and liabilities.

The following table sets forth the components of the portfolio of the available-for-sale financial assets of the Group.

| (in millions of RMB) | 31 December 2015 | 31 December 2014 (restated) |
|---|---|---|
| Bonds issued by the PRC government | 94,429 | 77,265 |
| Bonds issued by the People’s Bank of China (the “PBOC”) | 94 | 99 |
| Bonds issued by policy banks | 68,822 | 91,223 |
| Bonds issued by commercial banks and other financial institutions | 66,235 | 34,190 |
| Other bonds | 66,728 | 73,828 |
| Equity investments | 2,906 | 2,215 |
| Fund investments | 1,012 | 317 |
| Total available-for-sale financial assets | 300,226 | 279,137 |
| Less: Impairment allowances | (667) | (611) |
| Net available-for-sale financial assets | 299,559 | 278,526 |

*Held-to-maturity investments*

As at 31 December 2015, the net amount of held-to-maturity investments of the Group amounted to RMB353.137 billion, representing an increase of 36.12% as compared with the end of the previous year. Held-to-maturity investments are held on a long-term basis for the strategic allocation of assets and liabilities of the Group. Given the generally bullish bond market in the whole year, the Group reasonably extended the duration of investment portfolios based on the requirements of interest rate risk management of bank account and liquidity risk management, and moderately increased its investment in medium to long term bonds bearing fixed interest rates when the yields of bonds were at a higher level in the first half of the year. The purchase focused on bonds issued by the PRC government, policy banks and local governments, leading to a faster growth of such category of investments.

The following table sets forth the components of held-to-maturity investments of the Group.

| (in millions of RMB) | **31 December 2015** | 31 December 2014 (restated) |
|---|---|---|
| Bonds issued by the PRC government | **171,028** | 109,919 |
| Bonds issued by policy banks | **165,890** | 133,197 |
| Bonds issued by commercial banks and other financial institutions | **14,214** | 9,410 |
| Other bonds | **2,100** | 6,979 |
| **Total held-to-maturity investments** | **353,232** | 259,505 |
| Less: Impairment allowances | **(95)** | (71) |
| **Net held-to-maturity investments** | **353,137** | 259,434 |

*Investment receivables*

Investment receivables are unlisted PRC certificated bonds and other investment in debt securities held by the Group, which are not publicly quoted in China or overseas. As at 31 December 2015, the Group's net investment receivables amounted to RMB716.064 billion, representing an increase of 75.18% as compared with the end of the previous year, which was mainly due to an increase in the investment in non-standard debt securities. Please refer to Section 5.9.1 of this report for details of the investment in non-standard debt securities of the Company.

The following table sets forth the composition of the Group's investment receivables.

| (in millions of RMB) | **31 December 2015** | 31 December 2014 |
|---|---|---|
| **Investment in standard debt securities** | | |
| Bonds issued by the PRC government | **747** | 594 |
| Bonds issued by commercial banks and other financial institutions | **11,154** | 21,229 |
| Other bonds | **20,389** | 21,335 |
| **Investment in non-standard debt securities** | | |
| Credit | | |
| – Trust beneficiary rights | **78,067** | 111,636 |
| – Broker asset management schemes | **101,702** | 86,836 |
| – Fund asset management schemes and others | **58,615** | 40,450 |
| Non-credit | | |
| – Insurance asset management schemes | **48,198** | 56,330 |
| – Trust beneficiary rights | **–** | 402 |
| – Broker asset management schemes | **143,351** | 24,557 |
| – Fund asset management schemes and others | **254,858** | 45,451 |
| **Total investment receivables** | **717,081** | 408,820 |
| Less: Provision for impairment losses | **(1,017)** | (68) |
| **Net investment receivables** | **716,064** | 408,752 |

### *Carrying value and market value*

All bond investments classified as financial assets designated at fair value through profit or loss and available-for-sale investments were stated at market value or fair value. Due to the lack of a mature trading market for the investment receivables in the Group's investment portfolio, the Group did not make any assessment on their market value or fair value.

The following table sets forth, as at the dates indicated, the carrying value and market value of the held-to-maturity listed investments in our investment portfolio of the Group.

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| (in millions of RMB) | Carrying value | Market/fair value | Carrying value | Market/fair value |
| Held-to-maturity listed investments | 352,615 | 372,158 | 256,074 | 261,326 |

### *Securities investments*

| Stock code | Name | Currency | Initial investment ('000) | Shareholdings at end of period (shares) | Carrying value at end of period ('000) | Percentage of total securities Investments at end of period (%) | Profits/ (losses) for the reporting period ('000) |
|---|---|---|---|---|---|---|---|
| USY39656AA40 | Industrial and Commercial Bank of China | USD | 50,000 | N/A | 53,015 | 23.85 | 1,332 |
| XS1257592037 | Bank of Communications | USD | 34,000 | N/A | 34,720 | 15.62 | 720 |
| 00388.HK | Hong Kong Exchanges and Clearing Ltd. | HK$ | 4,830 | 1,003,512 | 199,097 | 11.56 | – |
| XS1328130197 | China Construction Bank Corporation | USD | 25,000 | N/A | 25,189 | 11.33 | 189 |
| WLGF II | Wing Lung Growth Fund | RMB | 127,000 | 127,000 | 126,583 | 8.67 | – |
| V | Visa Inc | USD | 2,049 | 217,444 | 15,682 | 7.06 | – |
| 03988.HK | Bank of China Ltd. | HK$ | 46,932 | 15,182,000 | 52,530 | 3.05 | – |
| 01288.HK | Agricultural Bank of China Ltd. | HK$ | 32,323 | 10,000,000 | 31,600 | 1.83 | – |
| MA | Master Card | USD | – | 38,400 | 3,741 | 1.68 | – |
| 00941.HK | China Mobile Ltd. | HK$ | 24,726 | 319,500 | 27,940 | 1.62 | – |
| Other securities investments at the end of the period | | HK$ | 202,912 | N/A | 220,548 | 12.82 | 21,478 |
| Other securities investments at the end of the period | | USD | 2,500 | N/A | 2,013 | 0.91 | – |

Notes: 1. The above table shows the top 10 securities held by the Group as at the end of the period in the descending order of their carrying value;
2. Other securities investments refer to those other than the top 10 securities.

### *Analysis on investments in foreign currency bonds*

As at 31 December 2015, the Group had a balance of investments in foreign currency bonds of USD7.454 billion, among which USD4.242 billion was held by the Company and USD3.212 billion was held by Wing Lung Group.

As at 31 December 2015, the foreign currency bonds invested by the Company were categorised by their issuers as follows: 46.17% of the foreign currency bonds were issued by the PRC government and Chinese companies; 13.48% by overseas governments and institutions; 15.22% by overseas financial institutions and 25.13% by overseas non-financial companies. The Company has made a provision for impairment losses of USD92 million for its investments in foreign currency bonds, and the floating valuation gains of the investment in foreign currency bonds was USD470,000.

*Companies in which the Company holds controlling interests and other Investee companies*

*Shareholdings in non-listed financial companies*

| Name of companies | Initial investment ('000) | Shareholding percentage (%) | Shareholdings at end of period (shares) | Carrying value at end of period ('000) | Profits/ (losses) for the reporting period[1] ('000) | Change in owners' equity for the reporting period ('000) | Origination of shares |
|---|---|---|---|---|---|---|---|
| Wing Lung Bank Ltd. | 32,081,937 | 100.00 | 231,028,792 | 30,313,858 | 2,404,037 | 3,214,831 | Equity investment |
| CMB International Capital Holdings Corporation Limited | 855,545 | 100.00 | 1,000,000,000 | 855,545 | 290,306 | 217,146 | Ownership upon establishment by promotion |
| CMB Financial Leasing Co., Ltd. | 6,000,000 | 100.00 | N/A | 6,000,000 | 1,549,897 | 1,723,195 | Ownership upon establishment by promotion |
| China Merchants Fund Management Co., Ltd | 708,193 | 55.00 | 115,500,000 | 882,274 | 383,184 | 716,899 | Equity investment |
| CIGNA & CMB Life Insurance Co., Ltd. | 646,443 | 50.00 | 725,000,000 | 1,391,417 | 148,543 | 351,658 | Equity investment |
| Investment in CMB-China Unicom Consumption Finance Co., Ltd. (招聯消費金融有限公司) | 1,000,000 | 50.00 | 1,000,000,000 | 995,000 | (5,000) | - | Equity investment |
| Taizhou Bank Co., Ltd. | 306,671 | 10.00 | 180,000,000 | 345,708 | 120,600 | – | Equity investment |
| China UnionPay Co., Ltd. | 155,000 | 3.75 | 110,000,000 | 155,000 | 5,500 | – | Equity investment |
| EPS Company (Hong Kong) Ltd. | HK$8,400 | 2.10 | 2 | HK$8,400 | HK$1,950 | – | Equity investment |
| Yantai City Commercial Bank Corporation Ltd. | 189,620 | 3.77 | 99,800,000 | 149,700 | – | – | Equity investment |
| Bank Consortium Holdings Ltd. | HK$20,000 | 13.33 | 20,000,000 | HK$71,149 | HK$21,474 | HK$(23) | Equity investment |
| Joint Electronic Teller Services Ltd. | HK$2,000 | 20.00 | 20,000 | HK$8,502 | HK$792 | – | Equity investment |
| Hong Kong Life Insurance Ltd. | HK$70,000 | 16.67 | 70,000,000 | HK$130,062 | HK$6,389 | HK$30,007 | Equity investment |
| BC Reinsurance Ltd. | HK$21,000 | 21.00 | 42,000,000 | HK$82,851 | HK$5,025 | HK$15,344 | Equity investment |
| Professional Liability Underwriting Services Ltd. | HK$810 | 27.00 | 810,000 | HK$3,875 | HK$1,222 | HK$(78) | Equity investment |
| I-Tech Solutions Limited | HK$3,000 | 50.00 | 3,000,000 | HK$2,922 | HK$45 | – | Equity investment |
| Hong Kong Precious Metals Exchange Ltd. | HK$136 | 0.35 | 136,000 | HK$136 | – | – | Equity investment |
| AR Consultant Service Ltd. | HK$4,023 | 7.83 | 100,000 | HK$11,254 | – | – | Equity investment |
| Luen Fung Hang Life Ltd. | MOP6,000 | 6.00 | 60,000 | MOP6,000 | – | – | Equity investment |
| China Insurance Brokers Co., Ltd. | HK$570 | 3.00 | N/A | – | – | – | Equity investment |

Note: 1 Profits/(losses) for the reporting period indicate the impact on the net profit of the Group for the reporting period attributable to the Bank's shareholders.

*Derivative financial instruments*

The major categories and amount of derivative financial instruments held by the Group as at 31 December 2015, are shown in the following table. For details, please refer to Note 54(f) to the financial report "Risk Management – Use of derivatives".

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | Nominal amount | Fair value | | Nominal amount | Fair value | |
| (in millions of RMB) | | Assets | Liabilities | | Assets | Liabilities |
| Interest rate derivatives | 1,195,623 | 839 | (538) | 360,545 | 420 | (629) |
| Currency derivatives | 1,141,846 | 9,332 | (7,035) | 1,020,501 | 8,879 | (9,615) |
| Other derivatives | 217 | 5 | (2) | 1,039 | 16 | (2) |
| Total | 2,337,686 | 10,176 | (7,575) | 1,382,085 | 9,315 | (10,246) |

In the second half of 2015, the RMB derivatives market developed rapidly along with the progress of reform in the interest rate and exchange rate regime. The Group actively seized opportunities arising from interest rate fluctuations in the inter-bank market to aggressively increase the proprietary trading in interest rate derivatives such as interest rate swaps, significantly increasing its share in the interest rate derivatives trading market and generating greater income from such trading activities. In the context of the suspension of RMB appreciation trend and the substantially increased RMB exchange rate fluctuations since August 2015, the Group actively seized market opportunities brought about by the fluctuation of RMB foreign exchange swap transactions and option transactions to aggressively increase the proprietary trading in derivatives, significantly expanding its share in the foreign exchange derivatives trading market, and eventually generating considerable income from such trading activities.

5.3.1.3 Goodwill

In compliance with the PRC enterprise accounting principles, at the end of 2015, the Group conducted an impairment test on the goodwill arising from the acquisition of WLB and China Merchants Fund and determined that provision for impairment was not necessary. As at 31 December 2015, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.954 billion.

## 5.3.2 Liabilities

As at 31 December 2015, the total liabilities of the Group amounted to RMB5,113.220 billion, representing an increase of 15.77% as compared with the end of 2014, which was primarily due to the steady growth in deposits from customers, placements from banks and other financial institutions, proceeds from disposal of financial assets under repurchase agreements and bonds payable.

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

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| (in millions of RMB, excluding percentages) | Amount | Percentage of the total (%) | Amount | Percentage of the total (%) |
| Deposits from customers | 3,571,698 | 69.85 | 3,304,438 | 74.82 |
| Deposits from banks and other financial institutions | 711,561 | 13.92 | 697,448 | 15.79 |
| Borrowings from the central bank | 62,600 | 1.22 | 20,000 | 0.45 |
| Placements from banks and other financial institutions | 178,771 | 3.50 | 94,603 | 2.14 |
| Financial liabilities designated at fair value through profit or loss | 20,227 | 0.39 | 13,369 | 0.30 |
| Derivative financial liabilities | 7,575 | 0.15 | 10,246 | 0.23 |
| Proceeds from disposal of financial assets repurchased | 185,652 | 3.63 | 66,988 | 1.52 |
| Accrued payroll | 6,524 | 0.13 | 6,068 | 0.14 |
| Taxes payable | 12,820 | 0.25 | 11,656 | 0.26 |
| Interest payable | 39,073 | 0.76 | 45,349 | 1.03 |
| Bonds payable | 251,507 | 4.92 | 106,155 | 2.40 |
| Deferred income tax liabilities | 867 | 0.02 | 771 | 0.02 |
| Other liabilities | 64,345 | 1.26 | 39,678 | 0.90 |
| **Total liabilities** | 5,113,220 | 100.00 | 4,416,769 | 100.00 |

Deposits from customers

As at 31 December 2015, total deposits from customers of the Group amounted to RMB3,571.698 billion, representing an increase of 8.09% as compared with the end of 2014. Deposits from customers accounted for 69.85% of the total liabilities of the Group, being 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.

| (in millions of RMB, excluding percentages) | 31 December 2015 Amount | 31 December 2015 Percentage of the total (%) | 31 December 2014 Amount | 31 December 2014 Percentage of the total (%) |
|---|---|---|---|---|
| Deposits from corporate customers | | | | |
| Demand | 1,167,467 | 32.69 | 973,646 | 29.46 |
| Time | 1,194,064 | 33.43 | 1,237,765 | 37.46 |
| Subtotal | 2,361,531 | 66.12 | 2,211,411 | 66.92 |
| Deposits from retail customers | | | | |
| Demand | 835,062 | 23.38 | 644,836 | 19.52 |
| Time | 375,105 | 10.50 | 448,191 | 13.56 |
| Subtotal | 1,210,167 | 33.88 | 1,093,027 | 33.08 |
| Total deposits from customers | 3,571,698 | 100.00 | 3,304,438 | 100.00 |

As at 31 December 2015, the percentage of demand deposits to total deposits from customers of the Group was 56.07%, representing an increase of 7.09 percentage points as compared with the end of 2014. Among the figures, the corporate demand deposits accounted for 49.44% of the corporate deposits, representing an increase of 5.41 percentage points as compared with that at the end of 2014, and the retail demand deposits accounted for 69.00% of the retail deposits, representing an increase of 10.00 percentage points as compared with that at the end of 2014.

## 5.3.3 Shareholders' equity

| (in millions of RMB) | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Share capital | 25,220 | 25,220 |
| Capital reserve | 67,523 | 67,523 |
| Investment revaluation reserve | 6,188 | 1,902 |
| Hedging reserve | 241 | (163) |
| Surplus reserve | 34,009 | 28,690 |
| Regulatory general reserve | 64,679 | 53,979 |
| Retained profits | 145,887 | 121,665 |
| Proposed profit appropriations | 17,402 | 16,897 |
| Difference arising from converting financial statements denominated in foreign currency | (343) | (1,309) |
| Total equity attributable to the shareholders of the Bank | 360,806 | 314,404 |
| Minority shareholders' equity | 952 | 656 |
| Total shareholders' equity | 361,758 | 315,060 |

### 5.3.4 Market share of deposit and lending businesses

According to the "Statements of Incomes and Expenditures relating to Lendings by Financial Institutions" published by the PBOC in December 2015, the market share and ranking of the Bank among the small- and medium-sized Chinese banks (including national and regional banks) in terms of total deposits and loans as at the end of the reporting period are as follows:

| Items | Market share (%) | Ranking |
|---|---|---|
| Total deposits expressed in RMB | 6.79% | 1 |
| Total domestic savings deposits expressed in RMB | 6.28% | 1 |
| Total loans expressed in RMB | 6.59% | 2 |
| Total domestic personal consumption loans in RMB | 15.11% | 1 |

Note: Effective from 2015, the People's Bank of China has no longer separately published the aggregate sum of national small- and medium-sized banks in preparing the "Statements of Incomes and Expenditures Relating to Lendings by Financial Institutions", and the denominator used for calculation of the market share in this report will be extended to all small-and-medium-sized banks (including national and regional banks). As a result of the changes in the denominator, the market share of the Company narrowed as compared with the previous year. With effect from 2015, the People's Bank of China has implemented a new statistical system for deposits and loans, therefore, the deposits in this report include placements from non-deposit-taking financial institutions and placements from overseas financial institutions, and the loans include placements with non-deposit-taking financial institutions, indicating an expansion in the denominators as compared with previous years.

## 5.4 Loan Quality Analysis

During the reporting period, the Group saw a steady growth in the volume of credit assets and an increase in non-performing assets. The allowance coverage ratio remained steady. As at 31 December 2015, total loans and advances to customers of the Group were RMB2,824.286 billion, representing an increase of 12.35% as compared with the end of the previous year; the non-performing loan ratio was 1.68%, up by 0.57 percentage point from the end of the previous year; whereas the non-performing loan allowance coverage ratio was 178.95%, representing a decrease of 54.47 percentage points as compared with the end of the previous year; the loan allowance ratio was 3.00%, representing an increase of 0.41 percentage point as compared with the end of the previous year.

### 5.4.1 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.

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| (in millions of RMB, excluding percentages) | Amount | Percentage of the total (%) | Amount | Percentage of the total (%) |
| Normal | **2,703,082** | **95.71** | 2,439,368 | 97.03 |
| Special mention | **73,794** | **2.61** | 46,634 | 1.86 |
| Substandard | **31,233** | **1.11** | 17,343 | 0.69 |
| Doubtful | **11,050** | **0.39** | 7,580 | 0.30 |
| Loss | **5,127** | **0.18** | 2,994 | 0.12 |
| Total loans and advances to customers | **2,824,286** | **100.00** | 2,513,919 | 100.00 |
| Total non-performing loans | **47,410** | **1.68** | 27,917 | 1.11 |

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. Affected by the slowdown in economy, the non-performing loans and special mention loans of the Group had increased. As at the end of the reporting period, the total non-performing loans of the Group amounted to RMB47.410 billion, representing an increase of 69.82% as compared with the end of the previous year. Specifically, the increase of non-performing loans was mainly due to the contribution of substandard loans. During the reporting period, the proportion of substandard loans increased by 0.42 percentage point to 1.11%. As at the end of the reporting period, the special mention loans amounted to RMB73.794 billion, accounting for 2.61% of the total loans, representing an increase of 0.75 percentage point over the end of the previous year.

## 5.4.2 Distribution of loans and non-performing loans by product type

| | 31 December 2015 | | | | 31 December 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| (In millions of RMB, excluding percentages) | Loan balance | Percentage of the total (%) | Non-performing loans | Non-performing loan ratio(1) | Loan balance | Percentage of the total (%) | Non-performing loans | Non-performing loan ratio(1) |
| Corporate loans | 1,507,770 | 53.39 | 34,333 | 2.28 | 1,467,585 | 58.38 | 20,466 | 1.39 |
| Working capital loans | 768,942 | 27.23 | 19,220 | 2.50 | 762,925 | 30.35 | 12,574 | 1.65 |
| Fixed asset loans | 370,599 | 13.12 | 3,810 | 1.03 | 350,416 | 13.94 | 1,324 | 0.38 |
| Trade finance | 219,706 | 7.78 | 3,406 | 1.55 | 231,298 | 9.20 | 2,106 | 0.91 |
| Others(2) | 148,523 | 5.26 | 7,897 | 5.32 | 122,946 | 4.89 | 4,462 | 3.63 |
| Discounted bills(3) | 89,815 | 3.18 | – | – | 75,007 | 2.98 | – | – |
| Retail loans | 1,226,701 | 43.43 | 13,077 | 1.07 | 971,327 | 38.64 | 7,451 | 0.77 |
| Micro enterprise loans | 310,777 | 11.00 | 4,744 | 1.53 | 338,813 | 13.48 | 3,612 | 1.07 |
| Residential mortgage loans | 499,455 | 17.69 | 2,258 | 0.45 | 329,178 | 13.09 | 871 | 0.26 |
| Credit card loans | 313,244 | 11.09 | 4,296 | 1.37 | 219,888 | 8.75 | 2,069 | 0.94 |
| Others(4) | 103,225 | 3.65 | 1,779 | 1.72 | 83,448 | 3.32 | 899 | 1.08 |
| Total loans and advances | 2,824,286 | 100.00 | 47,410 | 1.68 | 2,513,919 | 100.00 | 27,917 | 1.11 |

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

(2) Consists primarily of other corporate loans such as financial leasing, M&A loans and corporate mortgage loans.

(3) The Company will transfer its overdue discounted bills to corporate loans for accounting purposes.

(4) The "Others" category under new calibre 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 2015, the Group steadily developed its retail loan business, adjusted the loan structure, increased credit card loans and residential mortgage loans and moderately slowed down the granting of micro enterprise loans. As a result, the percentage of retail loans increased by 4.79 percentage points to 43.43%. As the repayment ability of certain individual borrowers deteriorated due to economic downturn, the non-performing retail loan ratio was 1.07%, up by 0.30 percentage point as compared with the end of the previous year.

Since the Group further optimised its corporate loan portfolio and promoted the development of strategic businesses such as M&A loans, cross-border loans and supply chain loans, the proportion of corporate loans for the reporting period decreased by 4.99 percentage points as compared with the end of the previous year. Due to the combined adverse impact of the four distinctive periods of the Chinese economy, namely "dealing simultaneously with the slowdown in economic growth, making difficult structural adjustments, absorbing the effects of the previous economic stimulus policies, and exploring new policies", the non-performing corporate loan ratio of the Group increased accordingly. As at the end of the reporting period, the non-performing corporate loan ratio of the Group was 2.28%, up by 0.89 percentage point as compared with the end of the previous year, among which, the increase of non-performing loans included in "Others" category was mainly due to the deterioration in repayment ability of certain major customers.

## 5.4.3 Distribution of loans and non-performing loans by industry

| (In millions of RMB, excluding percentages) | 31 December 2015 | | | | 31 December 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loan balance | Percentage of the total (%) | Non-performing loans | Non-performing loan ratio(1) | Loan balance | Percentage of the total (%) | Non-performing loans | Non-performing loan ratio(1) |
| Corporate loans | 1,507,770 | 53.39 | 34,333 | 2.28 | 1,467,585 | 58.38 | 20,466 | 1.39 |
| Manufacturing | 332,147 | 11.77 | 15,238 | 4.59 | 360,270 | 14.33 | 9,628 | 2.67 |
| Wholesale and retail | 251,373 | 8.90 | 10,279 | 4.09 | 301,395 | 11.99 | 6,547 | 2.17 |
| Property development | 213,080 | 7.54 | 1,174 | 0.55 | 179,983 | 7.16 | 460 | 0.26 |
| Transportation, storage and postal services | 159,349 | 5.64 | 1,387 | 0.87 | 148,473 | 5.91 | 741 | 0.50 |
| Construction | 101,270 | 3.59 | 772 | 0.76 | 102,314 | 4.07 | 396 | 0.39 |
| Production and supply of electric power, heat, gas and water | 112,337 | 3.98 | 78 | 0.07 | 101,064 | 4.02 | – | – |
| Mining | 58,308 | 2.06 | 3,923 | 6.73 | 64,960 | 2.58 | 1,629 | 2.51 |
| Leasing and commercial services | 84,240 | 2.98 | 186 | 0.22 | 52,152 | 2.07 | 110 | 0.21 |
| Water conservancy, environment and public utilities | 33,531 | 1.19 | 125 | 0.37 | 30,421 | 1.21 | 150 | 0.49 |
| Information transmission, software and IT service | 30,101 | 1.07 | 134 | 0.45 | 22,313 | 0.89 | 55 | 0.25 |
| Others(2) | 132,034 | 4.67 | 1,037 | 0.79 | 104,240 | 4.15 | 750 | 0.72 |
| Discounted bills | 89,815 | 3.18 | – | – | 75,007 | 2.98 | – | – |
| Retail loans | 1,226,701 | 43.43 | 13,077 | 1.07 | 971,327 | 38.64 | 7,451 | 0.77 |
| Total loans and advances to customers | 2,824,286 | 100.00 | 47,410 | 1.68 | 2,513,919 | 100.00 | 27,917 | 1.11 |

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

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

In 2015, the Group facilitated the development of real economy, constantly optimised its risk asset portfolio, and prioritised on consumption industries less impacted by economic cycles, strategic emerging industries of the State and local major infrastructure projects. The differentiated risk prevention and control strategy was formulated for key areas such as overcapacity industries, real estate, local government financing platforms and trade financing. The Group also optimised the allocation of credit resources so as to maintain an overall balance among risk, revenue and cost. During the reporting period, 84% of the increment in non-performing corporate loans was related primarily to three industries, i.e. manufacturing, wholesale and retail, and mining. Total loans associated with the above industries reduced thanks to the continuous optimisation of asset structure.

## 5.4.4 Distribution of loans and non-performing loans by region

| (in millions of RMB, excluding percentages) | 31 December 2015 | | | | 31 December 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loan balance | Percentage of the total (%) | Non-performing loans | Non-performing loan ratio(1) | Loan balance | Percentage of the total (%) | Non-performing loans | Non-performing loan ratio(1) |
| Head Office | 381,327 | 13.50 | 4,790 | 1.26 | 290,911 | 11.57 | 2,658 | 0.91 |
| Yangtze River Delta | 539,925 | 19.12 | 10,733 | 1.99 | 479,535 | 19.07 | 9,895 | 2.06 |
| Bohai Rim | 368,137 | 13.03 | 4,274 | 1.16 | 344,987 | 13.72 | 2,675 | 0.78 |
| Pearl River Delta and West Side of Taiwan Strait | 463,440 | 16.41 | 5,071 | 1.09 | 385,848 | 15.35 | 3,675 | 0.95 |
| North-east China | 140,913 | 4.99 | 3,012 | 2.14 | 128,884 | 5.13 | 1,823 | 1.41 |
| Central China | 292,361 | 10.35 | 9,956 | 3.41 | 263,511 | 10.48 | 4,331 | 1.64 |
| Western China | 345,113 | 12.22 | 8,862 | 2.57 | 322,046 | 12.81 | 2,409 | 0.75 |
| Overseas | 57,773 | 2.05 | – | – | 69,523 | 2.77 | – | – |
| Subsidiaries | 235,297 | 8.33 | 712 | 0.30 | 228,674 | 9.10 | 451 | 0.20 |
| Total loans and advances to customers | 2,824,286 | 100.00 | 47,410 | 1.68 | 2,513,919 | 100.00 | 27,917 | 1.11 |

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

In 2015, the Group implemented differentiated supervisory management by category for regional branches. For the risk concentrated regions, the Group selectively raised the loan approval standard and dynamically adjusted the credit granting rights, so as to prevent the occurrence of regional systematic risk. As at the end of the reporting period, the percentage of the balance of loans extended to the Pearl River Delta and West Side of Taiwan Strait and the loans of the Head Office recorded a relatively large increase. During the reporting period, 62% of the increment in non-performing loans of the Group was related primarily to Western China and Central China.

## 5.4.5 Distribution of loans and non-performing loans by type of guarantees

| (In millions of RMB, excluding percentages) | 31 December 2015 | | | | 31 December 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loan balance | Percentage of the total (%) | Non-performing loans | Non-performing loan ratio(1) | Loan balance | Percentage of the total (%) | Non-performing loans | Non-performing loan ratio(1) |
| Credit loans | 671,321 | 23.77 | 7,999 | 1.19 | 544,936 | 21.68 | 3,000 | 0.55 |
| Guaranteed loans | 444,698 | 15.75 | 19,587 | 4.40 | 450,713 | 17.93 | 11,077 | 2.46 |
| Collateralised loans | 1,241,633 | 43.96 | 16,250 | 1.31 | 1,059,962 | 42.16 | 12,651 | 1.19 |
| Pledged loans | 376,819 | 13.34 | 3,574 | 0.95 | 383,301 | 15.25 | 1,189 | 0.31 |
| Discounted bills | 89,815 | 3.18 | – | – | 75,007 | 2.98 | – | – |
| Total loans and advances to customers | 2,824,286 | 100.00 | 47,410 | 1.68 | 2,513,919 | 100.00 | 27,917 | 1.11 |

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

As at the end of the reporting period, the percentage of collateralised loans increased by 1.80 percentage points as compared with the end of the previous year, while the percentage of credit loans increased by 2.09 percentage points as compared with the end of the previous year which was mainly due to the increase of credit card loans.

## 5.4.6 Loans to the top ten single borrowers

| Top ten borrowers | Industry | Balance as at 31 December 2015 | Percentage of net capital (under the advanced approach) (%) | Percentage of total loans (%) |
|---|---|---|---|---|
| (in millions of RMB) | | | | |
| A | Transportation, storage and postal services | 8,400 | 2.08 | 0.30 |
| B | Wholesale and retail | 6,585 | 1.63 | 0.23 |
| C | Transportation, storage and postal services | 5,534 | 1.37 | 0.20 |
| D | Financial industry | 4,644 | 1.15 | 0.16 |
| E | Transportation, storage and postal services | 4,572 | 1.13 | 0.16 |
| F | Production and supply of electric power, gas and water | 4,000 | 0.99 | 0.14 |
| G | Transportation, storage and postal services | 3,940 | 0.98 | 0.14 |
| H | Transportation, storage and postal services | 3,934 | 0.98 | 0.14 |
| I | Information transmission, software and IT services | 3,570 | 0.89 | 0.13 |
| J | Transportation, storage and postal services | 3,502 | 0.87 | 0.12 |
| **Total** | | **48,681** | **12.07** | **1.72** |

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB8.400 billion, representing 2.08% of the Group's net capital. The loan balance of the top ten single borrowers totalled RMB48.681 billion, representing 12.07% of the Group's net capital and 1.72% of the Group's total loan balance, respectively.

## 5.4.7 Distribution of loans by overdue term

| (in millions of RMB, excluding percentages) | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Loan amount | Percentage of the total (%) | Loan amount | Percentage of the total (%) |
| Overdue within 3 months | **35,396** | **1.25** | 27,480 | 1.09 |
| Overdue from 3 months up to 1 year | **32,247** | **1.14** | 19,542 | 0.78 |
| Overdue from 1 year up to 3 years | **11,847** | **0.42** | 4,751 | 0.19 |
| Overdue more than 3 years | **878** | **0.03** | 931 | 0.04 |
| Total overdue loans | **80,368** | **2.84** | 52,704 | 2.10 |
| Total loans and advances to customers | **2,824,286** | **100.00** | 2,513,919 | 100.00 |

As at the end of the reporting period, overdue loans of the Group amounted to RMB80.368 billion, up by RMB27.664 billion from the end of the previous year and accounting for 2.84% of its total loans, representing an increase of 0.74 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 46.17%, guaranteed loans accounted for 33.36%, while credit loans accounted for 20.47% (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 1.05.

## 5.4.8 Restructured loans

| (in millions of RMB, excluding percentages) | 31 December 2015 Loan amount | 31 December 2015 Percentage of the total (%) | 31 December 2014 Loan amount | 31 December 2014 Percentage of the total (%) |
|---|---|---|---|---|
| Restructured loans(Note) | 4,531 | 0.16 | 996 | 0.04 |
| Of which: restructured loans overdue for more than 90 days | 2,506 | 0.09 | 534 | 0.02 |

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 0.16%, an increase of 0.12 percentage point as compared with that at the end of the previous year.

## 5.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the balance of repossessed assets of the Group amounted to RMB1.672 billion. After deduction of allowances for impairment losses of RMB981 million, the net repossessed assets amounted to RMB691 million.

## 5.4.10 Changes in the allowances for impairment losses on loans

The Group adopted two methods to assess impairment losses on loans at the balance sheet date: individual assessment and portfolio assessment. Loans which were considered individually significant were assessed individually for impairment. If there was any objective evidence indicating that a loan was impaired, the impairment losses would be recognised through profit or loss for the current period, as measured by the difference between the carrying amount of the loan and its discounted value of estimated future cash flows recoverable. Loans that were not considered individually significant and loans that were individually assessed but not indicated impaired based on objective evidence were grouped into the loan portfolio with similar credit risk characteristics for the purpose of impairment testing. Based on the testing results, the allowances for impairment losses were determined on a portfolio basis.

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

| (in millions of RMB) | 2015 | 2014 |
|---|---|---|
| **Balance at the beginning of the period** | 65,165 | 48,764 |
| Charge for the period | 59,486 | 32,895 |
| Release for the period | (1,979) | (1,641) |
| Unwinding of discount on impaired loans(Note) | (1,137) | (655) |
| Recovery of loans and advances previously written off | 1,464 | 651 |
| Write-offs | (38,383) | (14,917) |
| Transfers in/out | – | – |
| Foreign exchange rate movements | 226 | 68 |
| **Balance at the end of the period** | 84,842 | 65,165 |

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

The Group continued to adopt a stable and prudent policy in respect of making provisions. As at the end of the reporting period, the balance of allowances for impairment losses on loans amounted to RMB84.842 billion, representing an increase of RMB19.677 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 178.95%, representing a decrease of 54.47 percentage points as compared with the end of the previous year; the loan allowance ratio was 3.00%, representing an increase of 0.41 percentage point as compared with the end of the previous year.

# 5.5 Analysis of Capital Adequacy Ratio

As at 31 December 2015, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced approach were 12.57% and 10.83%, respectively, representing an increase of 0.66 percentage point and 0.90 percentage point respectively as compared with those under the weighted approach.

| (in millions of RMB, except for percentages) | At the end of the reporting period 31 December 2015 | At the end of the previous year 31 December 2014 | Increase/decrease at the end of the reporting period as compared with the end of the previous year (%) |
|---|---|---|---|
| The Group | | | |
| Capital adequacy ratios under the advanced approach(1) | | | |
| 1. Net core Tier 1 capital | **347,434** | 301,977 | 15.05 |
| 2. Net Tier 1 capital | **347,444** | 301,982 | 15.05 |
| 3. Net capital | **403,409** | 358,334 | 12.58 |
| 4. Risk-weighted assets (without taking into consideration the minimum requirements during the grace period) | **3,009,265** | 2,748,687 | 9.48 |
| Of which: Credit risk weighted assets | **2,657,383** | 2,471,180 | 7.53 |
| Market risk weighted assets | **36,972** | 22,610 | 63.52 |
| Operational risk weighted assets | **314,910** | 254,897 | 23.54 |
| 5. Risk-weighted assets (having taken into consideration the minimum requirements during the grace period) | **3,208,152** | 2,893,732 | 10.87 |
| 6. Core Tier 1 capital adequacy ratio | **10.83%** | 10.44% | up by 0.39 percentage point |
| 7. Tier 1 capital adequacy ratio | **10.83%** | 10.44% | up by 0.39 percentage point |
| 8. Capital adequacy ratio | **12.57%** | 12.38% | up by 0.19 percentage point |
| Information on leverage ratio(3) | | | |
| 9. Adjusted balance of on- and off-balance sheet assets | **6,275,592** | (Note 3) | (Note 3) |
| 10. Leverage ratio | **5.54%** | 4.96% | up by 0.58 percentage point |

Notes: (1) The "advanced approach" refers to the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC on 7 June 2012. Same as below. Under the advanced approach, the core Tier 1 capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group and the Company remain consistent at present. In accordance with the requirements of the advanced approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include China Merchants Bank Co., Ltd. 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 Co., Ltd. As at 31 December 2015, the subsidiaries qualified for calculating the capital adequacy ratio of the Group include Wing Lung Bank, CMBIC, CMBFL and CMFM.

(2) The "minimum requirements during the grace period" means that, during the parallel run period that the advanced capital measurement approaches were implemented, a commercial bank shall use the capital floor adjustment co-efficients to adjust the result of its risk weighted assets multiplying the sum of its minimum capital amount and reserve capital amount, total amount of capital deductions and the provision for excessive loan loss which can be included into capital, so as to obtain the required capital amount subject to the capital floor requirements. The capital floor adjustment co-efficients 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.

(3) Since the leverage ratios were calculated in accordance with the "Regulations on Leverage Management of Commercial Banks (Revised)" issued by China Banking Regulatory Commission on 12 February 2015 with effect from 2015, the Group's leverage level as at the end of the third quarter, first half and the first quarter of 2015 were 5.55%, 5.26% and 5.51%, respectively. However, the leverage ratios and the on- and off- balance sheet balances for 2014 were calculated in accordance with the "Regulations on Leverage Management of Commercial Banks" issued by China Banking Regulatory Commission on 1 June 2011.

As at 31 December 2015, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced approach were 12.15% and 10.38%, respectively, representing an increase of 0.69 percentage point and 0.94 percentage point respectively as compared with those under the weighted approach.

| (in millions of RMB, except for percentages) | At the end of the reporting period 31 December 2015 | At the end of the previous year 31 December 2014 | Increase/decrease at the end of the reporting period as compared with the end of the previous year (%) |
|---|---|---|---|
| The Company | | | |
| Capital adequacy ratios under the advanced approach | | | |
| 1. Net core Tier 1 capital | 307,888 | 268,845 | 14.52 |
| 2. Net Tier 1 capital | 307,888 | 268,845 | 14.52 |
| 3. Net capital | 360,460 | 320,740 | 12.38 |
| 4. Risk-weighted assets (without taking into consideration the minimum requirements during the grace period) | 2,765,712 | 2,546,291 | 8.62 |
| Of which: Credit risk weighted assets | 2,436,307 | 2,285,300 | 6.61 |
| Market risk weighted assets | 31,699 | 19,123 | 65.76 |
| Operational risk weighted assets | 297,706 | 241,868 | 23.09 |
| 5. Risk-weighted assets (having taken into consideration the minimum requirements during the grace period) | 2,966,543 | 2,687,891 | 10.37 |
| 6. Core Tier 1 capital adequacy ratio | 10.38% | 10.00% | up by 0.38 percentage point |
| 7. Tier 1 capital adequacy ratio | 10.38% | 10.00% | up by 0.38 percentage point |
| 8. Capital adequacy ratio | 12.15% | 11.93% | up by 0.22 percentage point |

As at 31 December 2015, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the weighted approach were 11.91% and 9.93% respectively, representing an increase of 0.17 percentage point and 0.33 percentage point, respectively as compared with those at the beginning of the year.

| (in millions of RMB, except for percentages) | At the end of the reporting period 31 December 2015 | At the end of the previous year 31 December 2014 | Increase/decrease at the end of the reporting period as compared with the end of the previous year (%) |
|---|---|---|---|
| The Group | | | |
| Capital adequacy ratios under the weighted approach(1) | | | |
| 1. Net core Tier 1 capital | 347,434 | 301,977 | 15.05 |
| 2. Net Tier 1 capital | 347,444 | 301,982 | 15.05 |
| 3. Net capital | 416,834 | 369,532 | 12.80 |
| 4. Risk-weighted assets | 3,499,231 | 3,146,571 | 11.21 |
| 5. Core Tier 1 capital adequacy ratio | 9.93% | 9.60% | up by 0.33 percentage point |
| 6. Tier 1 capital adequacy ratio | 9.93% | 9.60% | up by 0.33 percentage point |
| 7. Capital adequacy ratio | 11.91% | 11.74% | up by 0.17 percentage point |

Note: (1) The "weighted approach" refers to the weighted approach for credit risk, the standardised approach for market risk and the basic indicator approach for operational risk in accordance with the relevant provisions of the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC on 7 June 2012. Same as below.

As at 31 December 2015, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 11.46% and 9.44%, respectively, representing an increase of 0.19 percentage point and 0.32 percentage point respectively as compared with those at the beginning of the year.

| (in millions of RMB, except for percentages) | **At the end of the reporting period 31 December 2015** | At the end of the previous year 31 December 2014 | Increase/decrease at the end of the reporting period as compared with the end of the previous year (%) |
|---|---|---|---|
| **The Company** | | | |
| **Capital adequacy ratios under the weighted approach** | | | |
| 1. Net core Tier 1 capital | **307,888** | 268,845 | 14.52 |
| 2. Net Tier 1 capital | **307,888** | 268,845 | 14.52 |
| 3. Net capital | **373,886** | 331,937 | 12.64 |
| 4. Risk-weighted assets | **3,261,357** | 2,946,283 | 10.69 |
| 5. Core Tier 1 capital adequacy ratio | **9.44%** | 9.12% | up by 0.32 percentage point |
| 6. Tier 1 capital adequacy ratio | **9.44%** | 9.12% | up by 0.32 percentage point |
| 7. Capital adequacy ratio | **11.46%** | 11.27% | up by 0.19 percentage point |

## Balance of credit risk exposures

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

| Unit: RMB million | Type of risk exposure | Legal person | Group |
|---|---|---|---|
| Portion covered by the foundation IRB approach | Financial institution | 576,858 | 576,858 |
| | Corporate | 1,577,865 | 1,577,865 |
| | Retail | 1,443,562 | 1,443,562 |
| | Of which: Personal housing mortgages | 491,748 | 491,748 |
| | Qualified revolving retail | 561,704 | 561,704 |
| | Other retail | 390,110 | 390,110 |
| Portion not covered by the foundation IRB approach | On-balance sheet | 2,426,490 | 2,722,954 |
| | Off-balance sheet | 158,050 | 166,857 |
| | Counterparty | 7,350 | 8,927 |

## Market risk capital measurement

The Group uses various approaches to calculate its market risk capital. Specifically, it uses the internal model approach to calculate the general market risk capital of the entities in Mainland China, and uses the standardised approach to calculate the specific market risk capital of the entities in Mainland China as well as the market risk capital and specific market risk capital of overseas institutions. As at the end of 2015, the market risk capital of the Group was RMB2.96 billion, and its risk-weighted assets were RMB36.97 billion. Of which, the market risk capital calculated under the internal model approach was RMB760 million, and the market risk capital calculated under the standardised approach was RMB2.20 billion.

The Group's market risk capital under the internal model approach was calculated using the market risk value based on 250 days of historical market data, a confidence coefficient of 99% and a holding period of 10 days. The following table sets forth the market risk value indicators of the Group as at the end of 2015:

Unit: RMB million

| No. | Item | Pressure risk value during the reporting period | General risk value during the reporting period |
|---|---|---|---|
| 1 | Average value | 301 | 243 |
| 2 | Maximum value | 815 | 347 |
| 3 | Minimum value | 109 | 109 |
| 4 | Value at the end of the period | 671 | 234 |

# 5.6 Results of Operating Segments

The following results of operating segments are presented by business segments and geographical segments. As business segment information can better reflect the business operations of the Group, the Group chooses business segment information as the primary reporting format. Segment reporting data are principally derived from the multi-dimensional profitability report on the Company's management accounting system.

## Business segments

The principal businesses of the Group include corporate finance, retail finance and financial institutions finance. The following table summarises the operating results of the business segments of the Group for the periods indicated.

| Item<br>(in millions of RMB, except for percentages) | 2015<br>Profit before tax by segment | 2015<br>Percentage (%) | 2014<br>Profit before tax by segment | 2014<br>Percentage (%) |
|---|---|---|---|---|
| Corporate finance | 12,508 | 16.66 | 30,798 | 41.94 |
| Retail finance | 34,792 | 46.34 | 29,105 | 39.64 |
| Financial institutions finance | 22,983 | 30.61 | 16,199 | 22.06 |
| Other businesses | 4,796 | 6.39 | (2,671) | (3.64) |
| **Total** | 75,079 | 100.00 | 73,431 | 100.00 |

During the reporting period, the percentage of profit from retail finance of the Group continued to grow. Profit before tax amounted to RMB34.792 billion, up by 19.54% from the previous year, representing 46.34% of the total profit before tax, representing an increase of 6.70 percentage points as compared with the previous year. At the same time, the cost-to-income ratio of retail banking business (excluding business tax and surcharges) was 35.72%, representing a decrease of 3.92 percentage points as compared with 2014.

## Geographical segments

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

| | Total assets | | Total liabilities | | Total profit before tax | |
|---|---|---|---|---|---|---|
| | 31 December 2015 | | 31 December 2015 | | 2015 | |
| (in millions of RMB, except for percentages) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Head Office | 2,105,486 | 38 | 1,808,257 | 35 | 31,968 | 42 |
| Yangtze River Delta | 762,902 | 14 | 761,795 | 15 | 3,572 | 5 |
| Bohai Rim | 511,402 | 9 | 503,469 | 10 | 11,163 | 15 |
| Pearl River Delta and West Side of Taiwan Strait | 607,634 | 11 | 597,665 | 12 | 13,218 | 18 |
| North-eastern China | 201,537 | 4 | 199,294 | 4 | 2,990 | 4 |
| Central China | 385,401 | 7 | 382,889 | 7 | 3,683 | 5 |
| Western China | 421,469 | 8 | 422,455 | 8 | 431 | 1 |
| Overseas | 142,219 | 3 | 140,900 | 3 | 1,791 | 2 |
| Subsidiaries | 336,928 | 6 | 296,496 | 6 | 6,263 | 8 |
| Total | 5,474,978 | 100 | 5,113,220 | 100 | 75,079 | 100 |

| | Total assets | | Total liabilities | | Total profit before tax | |
|---|---|---|---|---|---|---|
| | 31 December 2014 | | 31 December 2014 | | 2014 | |
| (in millions of RMB, except for percentages) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Head Office | 1,863,145 | 39 | 1,629,954 | 37 | 1,998 | 3 |
| Yangtze River Delta | 590,741 | 12 | 586,447 | 13 | 10,514 | 15 |
| Bohai Rim | 425,612 | 9 | 414,438 | 9 | 14,922 | 20 |
| Pearl River Delta and West Side of Taiwan Strait | 527,907 | 11 | 515,926 | 12 | 15,988 | 22 |
| North-eastern China | 173,827 | 4 | 170,945 | 4 | 3,865 | 5 |
| Central China | 333,656 | 7 | 328,146 | 8 | 7,510 | 10 |
| Western China | 378,606 | 8 | 370,196 | 8 | 11,212 | 15 |
| Overseas | 126,892 | 3 | 121,176 | 3 | 2,077 | 3 |
| Subsidiaries | 311,443 | 7 | 279,541 | 6 | 5,345 | 7 |
| Total | 4,731,829 | 100 | 4,416,769 | 100 | 73,431 | 100 |

# 5.7 Others

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

The Group's off-balance sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, pending litigations and disputes and other contingent liabilities. The credit commitment is the primary component. As at the end of 2015, the balance of credit commitments was RMB1,170.100 billion. For details of the contingent liabilities and commitments, please refer to "Contingent liabilities and commitments" in "Notes to the Financial Statements" of this report.

## 5.7.2 Outstanding overdue debts

As at the end of 2015, the Group did not have any outstanding overdue debts.

The contents and data in section 5.8 and below are analysed from the Company's perspective.

# 5.8 Business Development Strategies

## 5.8.1 Strategic direction and positioning – "Asset-light Banking", "One Body with Two Wings"

Building "Asset-light Banking" is a necessary choice for the Company to stay competitive under the current economic situation, which is objectively required by the changes in China's economic structure and the trend of developing "Asset-light Banking" in the financial industry, and is also a feasible approach to the accomplishment of the Company's transformation and transcendence. The"Asset-light Banking" strategy has been formulated to achieve more efficient growth and more lucrative return through less capital consumption, more streamlined operation and higher flexibility. Its essence features mainly in "light" assets, "light" operating model and "light" management pattern. The Company will make concerted efforts to promptly accommodate market changes and create values for customers under the "customer-centric" service concept, thereby achieving the ultimate goal of value enhancement.

The Company will establish the "One Body with Two Wings" business structure under which retail finance is the mainstay business supported by corporate finance and financial institutions finance, and develop those businesses into three profit-generating pillars characterised by mutual integration, mutual coordination and mutual promotion. As for retail finance, the Company will develop best banking service and increase its value contribution through three major businesses, namely wealth management, consumer finance and small- and micro-enterprise finance. With respect to corporate finance, the Company will develop professional banking service, establish two business systems, namely transaction banking and investment banking, and focus on four major businesses, namely cash management, trade finance, cross-border finance and M&A financing, aiming to develop superior business features. With regard to financial institutions finance, the Company will develop elite banking service which will forge new profit drivers through macro asset management and transactions in the financial market. By establishing the "One Body with Two Wings" business structure, the Company will be in a better position to overcome the challenges of interest rate liberalisation and periodic economic fluctuations.

## 5.8.2 Progress of "Asset-light Banking" and "One Body with Two Wings" achieved gradually through continuous promotion of strategic transformation

Evaluation on implementation of the "Asset-light Banking" strategy

1. *Percentage of risk-weighted assets to total assets continued to decline*

As at the end of the reporting period, the percentage of risk-weighted assets to total assets under the weighted approach was 62.62%, down by 2.99 percentage points from 65.61% as at the end of the previous year. The growth rate of risk-weighted assets under the weighted approach stood at 10.69%, 5.27 percentage points lower than the growth rate of the Company's total assets, which was 15.96%.

2. *Securitisation of credit assets offered new channels for operation transformation*

Based on the Company's exploration and practice for nearly two years, securitisation of credit assets has gradually become an important means and breakthrough for the Company to implement the "Asset-light Banking" strategy. The Company, with its forward-looking vision, was among the first movers in this field and seized opportunities to establish its leading position in the domestic market, which is mainly manifested in the following aspects:

Firstly, the Company made continuous achievements in its market innovation initiatives. Since the relaunch of pilot securitisation, the Company issued the first individual residential mortgage-backed securities (RMBS) under the filing system of the CBRC and the first credit card automobile installment asset-backed securities among domestic banks under the registration system of the central bank; innovatively connected overseas RQFII funds with domestic investments, thus achieving breakthrough in cross-border securitisation of assets of domestic commercial banks; issued the first rotation-buying based securities backed by structured credit card assets that can be completely transferred out of balance sheet; and innovated issuance of securities at a premium, full costing investor-bearing mode and other innovative initiatives. Secondly, the Company continued to take the lead in terms of market share. As at the end of the reporting period, the Company issued a total of 8 cases of credit asset-backed securities, covering corporate loans, credit card automobile installment loans and residential housing mortgages, thus becoming the bank which offers the most diversified securitisation portfolios in China. During the reporting period, the total amount of newly issued securities was RMB23.02 billion, and the aggregate issue volume of the Company amounted to RMB51.66 billion with a market share of approximately 7%, ranking first among domestic commercial banks. Specifically, the securitisation of credit card loans, automobile installment loans and RMBS ranked first or second in their respective category among domestic commercial banks. Thirdly, the Company enjoyed a superior brand advantage in market competition. As at the end of the reporting period, the Company has established various securitisation brands, including "HEXIN (和信)", "HEJIA (和家)" and "HEXIANG (和享)" for domestic niche market segments, and developed a relatively unique brand influence. The various brands of "HE (和)" brands posted a registered total issue amount of RMB110.0 billion, providing larger room for future operation transformation.

*3. Net non-interest income maintained a rapid growth*

In 2015, the Company continued to vigorously expancyymiound wealth management, credit cards and other businesses, resulting in a rapid growth in the net non-interest income. In 2015, the Company realised the net non-interest income of RMB59.570 billion, representing a year-on-year increase of 33.74%. The proportion of the net non-interest income to our net operating income was 31.02%, up by 2.76 percentage points as compared with the previous year. Fee and commission income amounted to RMB53.425 billion, representing an increase of 33.68% as compared to the previous year, among which, fees and commission income from wealth management services amounted to RMB23.244 billion, representing an increase of 70.32% as compared to the previous year. Specifically, income from entrusted wealth management services amounted to RMB8.913 billion, representing an increase of 42.75% as compared to the previous year; income from agency distribution of trust schemes amounted to RMB3.866 billion, representing an increase of 70.84% as compared to the previous year; income from agency distribution of insurance policies amounted to RMB2.812 billion, representing an increase of 31.65% as compared to the previous year; income from agency distribution of funds amounted to RMB7.519 billion, representing an increase of 164.10% as compared to the previous year; income from agency distribution of precious metal amounted to RMB134 million. Such growth is primarily attributable to substantial growth in income from wealth management services driven by rapid surges in the domestic capital market during the first half of 2015 and the quality customer base of the Company. Bank card fees amounted to RMB9.461 billion, representing an increase of 24.62% as compared to 2014 (calculated on the same statistical calibre). Income from agency sales of bonds amounted to RMB1.809 billion, representing an increase of 66.41% as compared to the previous year. Custodian fee income amounted to RMB3.567 billion, representing an increase of 68.89% as compared to the previous year.

*4. The capital efficiency remained stable*

As at the end of the reporting period, the capital adequacy ratio and Tier 1 capital adequacy ratio of the Company measured under the weighted approach were 11.46% and 9.44% respectively; up by 0.19 percentage point and 0.32 percentage point respectively as compared with those as at the end of the previous year. The capital adequacy ratio and Tier 1 capital adequacy ratio of the Company measured under the advanced approach were 12.15% and 10.38% respectively, up by 0.22 percentage point and 0.38 percentage point respectively as compared with those at the end of the previous year. The risk adjusted return on capital (RAROC) before tax under the weighted approach was 21.15%, maintaining at a level which was significantly higher than the capital cost.

*5. The operational efficiency was kept at a satisfactory level*

As at the end of the reporting period, the cost-to-income ratio of the Company was 27.28%, representing a decrease of 3.28 percentage points as compared with the previous year; the revenue per person was RMB2.54 million, representing an increase of 15.29% as compared with the previous year; the profit before tax per person was RMB0.91 million; the profit before tax per outlet was RMB43.80 million.

*6. The e-banking channel replacement ratio improved continuously*

During the reporting period, the Company continued to establish the "light" operation platform to develop its mobile phone-based retail business, thereby effectively raising the e-bank channel replacement ratio. As at the end of the reporting period, the overall counter replacement ratio in respect of retail e-banking channels reached 97.32%, representing an increase of 1.94 percentage points over the previous year. Visual electronic counters played a remarkable role in replacement of processing non-cash transactions at outlets, with the replacement ratio of non-cash transactions reaching 20.48%. The overall counter replacement ratio in respect of corporate e-banking channels reached 59.04%; whereas 95.50% of transaction settlements were completed via online corporate finance services, representing an increase of 2.54 and 2.18 percentage points respectively over the previous year.

Analysis on achievements in implementing the "One Body with Two Wings" strategy

*1. The value contribution of retail finance continued to grow*

In 2015, the value contribution of retail finance grew steadily. Profit before tax reached RMB34.792 billion, representing an increase of 19.54% as compared to the previous year, and its proportion to the Company's pre-tax profit increased continuously to 50.47%, 7.73 percentage points higher than that for the previous year. The net operating income from retail finance grew rapidly to RMB89.186 billion, representing an increase of 30.04% as compared to the previous year; and accounted for 46.44% of the Company's net operating income, representing an increase of 2.93 percentage points as compared to the previous year. The risk adjusted return on capital (RAROC) before tax of the retail finance under the weighted approach was 80.4%, representing an increase of 26.4 percentage points as compared to the previous year.

*2. Rapid growth in income from financial institutions finance and slight decrease in income from corporate finance*

During the reporting period, the Company recorded operating income from financial institutions finance of RMB26.448 billion, representing an increase of 40.29% as compared to the previous year; operating income from corporate finance of RMB74.491 billion, representing a decrease of 3.78% as compared to the previous year. For the reasons for such decrease, please refer to the section headed "Corporate finance".

*3. Satisfactory achievements were made in the operation strategy where "'one body' is a driver for 'two wings', while 'two wings' are supplements for 'one body'"*

The Company's development strategy of "One Body with Two Wings" puts more emphasis on mutual promotion and overall optimum of the Company's business segments while further highlighting the strategic position of our retail finance business.

In 2015, the retail finance of the Company exerted its advantage in retail customer resources to enhance the referral of corporate customers. During the reporting period, our Diamond-class customers made a referral of 853 corporate customers, and the small- and micro-enterprise customers opened 8,891 active corporate accounts. The Company further tapped on its strategic customers for further cooperation and provided exclusive comprehensive retail finance services to strategic customers and their employees so as to improve customer loyalty. The Company fully capitalised on the advantages of its retail channel in the sales of insurance, funds and trusts to provide complementary services to other financial institutions, thereby effectively promoting the development of its custody business and the growth in institutional deposits.

During the reporting period, both corporate finance and financial institutions finance of the Company grew rapidly, laying a solid foundation for the development of our retail finance. In 2015, our corporate finance boosted the expansion of retail customer base by vigorously promoting retail finance services including payroll service, corporate card service and pension. With the coordinated support of retail finance business by corporate finance business, the Company handled an amount of over RMB1,000 billion under its payroll service, issued 122,200 cards under its corporate card service and managed pension assets of over RMB130.0 billion. Meanwhile, the asset management business of our financial institutions finance offered wealth management products based on market changes to promote the development of our retail finance, aiming at catering to the differentiated investment needs and risk preferences of retail customers. During the reporting period, the Company offered 3,527 wealth management products with a total amount of RMB7,235.603 billion to retail customers, and the balance amounted to RMB907.384 billion as at the end of the period.

# 5.9 Changes of the External Environment and the Corresponding Measures

## 5.9.1 The Impact of Changes in Operating Environment and Key Business Concerns

1. Overview of the macroeconomic and financial outlook

In 2015, the domestic economy generally continued its slowdown trend with decelerating social investments due to overcapacity and destocking pressure. The industrial growth rate generally stayed low while the consumption growth rate has been stable since the second half of the year. Due to weak demands at home and abroad, imports and exports remained sluggish. The product price index remained low. From the perspective of monetary finance, in order to relieve the intensifying downward pressure on the domestic economy, the central bank, on the premise of adopting the prudent monetary policies, took various measures including deposit reserve ratio cuts and interest rate cuts and employed various monetary policies to ensure a moderately loose liquidity position in the market and a lower social financing cost. As a result, growth in social financing, credit facilities and money supply generally remained stable. On the other hand, the government increased its fiscal efforts, supported the swap of local debts, innovatively adopted the PPP model and promoted the policy bank to issue long-term special financial bonds, so as to boost steady economic growth. The exchange rate of RMB against USD experienced large drops after the foreign exchange regime was reformed in August. The downward trend became increasingly notable when the expected USD interest hike became a reality at the end of the year. The domestic capital market was generally bullish in the first half of the year. However, it suddenly turned into drastic slumps in the middle of the year, then fluctuated within certain ranges and plummeted again at the end of the year, reflecting the uncertainties in the effectiveness of the PRC government's various reform policies and investors' expectation of sequent economic situation. The economic indicators for the whole year suggested a struggle to bottom out from this economic downturn cycle.

2. Net interest margin

In 2015, the net interest margin of the Company was 2.81%, up by 11 basis points as compared with the previous year. The increase against the backdrop of interest rate cuts was primarily due to the fact that the Company proactively improved interest rate risk management, constantly optimised the asset and liability structure, proactively increased the percentage of fixed-rate loans before and during the interest rate cut cycle and controlled the cost of debts despite interest rate cuts in the market by leveraging on the Bank's advantage in retail finance, which not only offset the negative impact of interest rate cuts on interest spread, but also enabled the Company to widen its interest spread.

In particular: firstly, the percentage of demand deposits of low cost savings and the demand deposits and placements from banks and financial institutions to total deposits rose quickly in substitution of high-cost debts under the current monetary policies, thus lowering the cost of debts at a rapid pace; secondly, the Company tightened control over the cost of structured deposits and medium- and long-term debts with interest rates higher than that quoted in the open market in the context of continuous interest cuts; thirdly, the proportion of income from credit card repayment by instalments increased rapidly, leading to higher profitability of overall retail loans. However, on the other hand the central bank's interest rate cuts had negative impacts on the net interest margin.

Looking forward to 2016, given that the negative impact of the five interest rate cuts announced in 2015 will be fully reflected in the re-pricing of the Company's assets and liabilities. Coupled with the combined effects of the increase in the cost of debts which may result from changes in the debt structure due to interest rate liberalisation and the declining financing needs from the real economy, it is expected that the Company's overall net interest margin will show a steady decline trend. On the other hand, certain potential factors would have positive effect on the net interest margin: firstly, as the monetary policies are currently loosening at a steady pace, the percentage of demand deposits to total deposits may continue to rise from historical highs in 2015, which will help lower the cost of liabilities; secondly, given the increased volatility in the foreign currency market, the Company expects a slower pace in interest rate cuts and a greater possibility in deposit reserve ratio cuts. The latter will free up statutory deposits to generate investment income, which in turn will increase the returns on assets. In response to the changes in the external situation, the Company will further optimise its loan portfolio, properly allocate the credit resources of the Bank and strengthen innovation on investment and financing businesses, striving to improve the return on assets. Meanwhile, the Company will consistently implement the operating principle of maintaining a reasonable asset-to-liability ratio and exercise reasonable control over the cost of debts, aiming to maintain the relative advantage of the net interest margin and profitability of the Company.

In face of the accelerated interest rate liberalisation, the Company will continue to promote all related work in response to interest rate liberalisation. Firstly, the Company will establish a product pricing management mechanism which takes the market yield curve as the basis for pricing, and internal fund transfer pricing (FTP) as the tool, and covers all the deposits and loans denominated in domestic currency and foreign currencies. Secondly, the Company will independently research and develop the product pricing management system covering all on- and off-balance sheet asset and liability businesses, comprehensively and accurately estimate the cost and return of each item and implement the "customer-centric" differentiated pricing strategy. Thirdly, the Company will strengthen the management of interest rate risk in an active and forward-looking manner, constantly optimise the asset-liability structure and continuously improve its interest rate risk with strong asset sensitivity. Fourthly, the Company will enhance the management and operational capabilities of the treasurer and strengthen the management of market financing and active liability taking.

3. Assets quality of key areas

As at 31 December 2015, the non-performing loan ratio of the Company was 1.80%, representing an increase of 0.60 percentage point as compared with the end of the previous year, while the proportion of special mention loans to the total was 2.65%, up by 0.71 percentage point from the end of the previous year. The allowance coverage ratio of our non-performing loans was 177.09%, representing a decrease of 52.90 percentage points as compared with the end of the previous year. The credit cost ratio was 2.35%, an increase of 0.92 percentage point as compared with the end of the previous year. The risk exposure was generally controllable.

In response to changes in external macroeconomic environment, the Company proactively strengthened the control of its credit risk associated with real estate enterprises, local government financing platforms, overcapacity industries and other key areas.

In respect of real estate credit business, the Company continued to enhance the on- and off-balance sheet quota control on full statistical calibres, proactively and dynamically adjusted its credit policy, and strengthened the customer list management. The Company also optimised its resources allocation by allocating its credit resources to strategic customers and implemented stringent entry standards with respect to customers, regions and projects, thereby further raising the proportion of its strategic customers in the real estate industry and constantly optimising its assets structure. As at the end of the reporting period, the risk exposure of our businesses with domestic real estate enterprises (calculated on the broad statistical calibre) amounted to RMB331.621 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standard assets), representing an increase of RMB22.195 billion as compared with the beginning of the year. Among which, the balance of loans for domestic corporate real estate amounted to RMB173.226 billion, representing an increase of RMB32.378 billion as compared with the end of the previous year, which accounted for 6.69% of the Company's total loans, up by 0.53 percentage point as compared with the end of the previous year, and the non-performing loan ratio was 0.67%, up by 0.35 percentage point as compared with the end of the previous year. In addition, there was no non-performing asset in our businesses such as contingent credit involving real estate, bond investments, proprietary investment and investment of wealth management products in non-standard assets.

In respect of loans extended to local government financing platforms, the Company implemented quota management on full statistical calibres. The Company further specified the requirements of controlling the total amount of loans, adhered to the entry standard of "high level and strong cash flow", and prioritised the allocation of its credit resources to the government financing platforms being operated under commercial principles and having relatively adequate cash flow to optimise its loan structure. In addition, the Company continued with its research on the change of debt policy of the central and local governments, with a focus on the progress of replacement of local government debts, so as to safeguard the creditor's rights of the Company. As at the end of the reporting period, the risk exposure of our businesses with local government financing platforms (calculated on the broad statistical calibre) amounted to RMB257.605 billion (including businesses such as actual and contingent credit, bond investments, proprietary investment and investment of wealth management products in non-standard assets), representing an increase of RMB19.009 billion as compared with the beginning of the year. Among which, the balance of loans on balance sheet amounted to RMB131.299 billion, representing an increase of RMB16.815 billion as compared with the end of the previous year, which accounted for 5.07% of the total loans granted by the Company, up by 0.06 percentage point as compared with the end of the previous year. There was no non-performing asset.

For overcapacity industries such as iron and steel, cement, plate glass, electrolytic aluminium, shipbuilding, polysilicon and coal chemicals, the Company dynamically adjusted its credit policies, raised its entry standards, supported its quality customers, refined customer list management and implemented stringent quota management. In addition, the Company enhanced the monitoring of withdrawal of risk-bearing loans and optimised risk mitigation measures. Due to economic downturn, the Company has been increasingly exposed to the risks associated with overcapacity industries and its non-performing loan ratio rose accordingly, which was mainly due to the increase in non-performing loans associated with the coal chemical industry. During the reporting period, the balance of our loans extended to overcapacity industries amounted to RMB49.044 billion, representing an increase of RMB6.300 billion as compared with the end of the previous year, and accounting for 1.89% of total loans of the Company, up by 0.02 percentage point as compared with that at the beginning of the year. The non-performing loan ratio of the Company was 5.46%, up by 3.71 percentage points as compared with that at the beginning of the year.

4. Growth rate of risk-weighted assets

As at the end of 2015, the Company's risk-weighted assets under the weighted approach increased by 10.69%, 5.27 percentage points lower than the growth rate of total assets. The Company has maintained a reasonable and healthy growth in its risk-weighted assets, which was mainly attributable to the fact that the Company has implemented the operation strategy of "Asset-light Banking", increased its effort to develop the asset-light businesses and moderately slowed down the growth of risk-weighted assets. In 2016, the Company will continue to implement the operation strategy of "Asset-light Banking", optimise the asset structure, raise the asset turnover rate and improve the lean management, in order to keep the growth rate of risk-weighted assets under that of total assets.

5. Capital Management

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

On 18 April 2014, the CBRC approved the Company's implementation of the advanced approach for capital measurement. Meanwhile, the CBRC also allowed a grace period for commercial banks which have been approved to adopt the advanced approach for capital measurement. During the grace period, commercial banks shall calculate their respective capital adequacy ratio by using the advanced approach for capital measurement and other approaches and shall comply with the minimum capital requirements. The volume of risk weighted assets of the Company under the advanced approach is significantly lower than that under the weighted approach. This is mainly due to the diversified nature of retail assets which bring about significant capital efficient effect under the advanced approach. As the Company always places emphasis on the strategy of retail banking, retail assets account for a larger proportion in its total assets.

With respect to the optimisation of asset structure, in 2015, the Company issued a total of 4 credit asset-backed bonds with total amounts of RMB23.02 billion in the inter-bank bond market. The Company will further expedite the development of its asset securitisation business next year. As regards to the optimisation of capital structure, the Company continued to pay attention to various new capital instruments.

The Company's capital management goals for 2015 to 2017 were set at 9% for the core Tier 1 capital adequacy ratio, 10% for the Tier 1 capital adequacy ratio and 12% for the capital adequacy ratio respectively, all to be achieved by the end of 2017. The Company's core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio under the advanced approach in 2015 was 1.38, 0.38 and 0.15 percentage point(s) higher than the aforesaid capital management goals, respectively.

6. The investment of wealth management funds in beneficiary rights of margin financing and securities lending, margin financing in the secondary stock trading market, and equity-pledged financing

During the reporting period, the Company prudently carried out the business of wealth management funds invested in beneficiary rights of margin financing and securities lending. As at the end of the reporting period, balance of wealth management funds invested in beneficiary rights of margin financing and securities lending amounted to RMB27.570 billion, representing a decrease of RMB39.007 billion or 58.59% as compared to the end of the previous year, mainly due to the fact that customers' financing demand weakened in the wake of drastic fluctuations in the domestic stock market and that securities firms were able to raise funds by way of bond issues, leading to reduced demand for margin financing and securities lending. The Company implemented strict entry approval system for such business, strengthened its daily monitoring, verified its asset value on a monthly basis after the stock market crash, and suspended the businesses newly introduced by securities firms which were subject to penalty by the CSRC, so as to strengthen risk control over such business. As at the end of the reporting period, the risk exposure of the wealth management funds invested in beneficiary rights of margin financing and securities lending of the Company was kept under control without overdue.

As at the end of the reporting period, the Company's wealth management funds invested in margin financing in the secondary stock trading market amounted to approximately RMB30 billion, significantly lower than that as recorded during the peak season due to the stock market crash. The Company exercised strict risk control over margin financing in the secondary stock trading market and dynamically adjusted the product leverage ratio according to market conditions. Following the stock market crash, the Company further verified the source of subordinated funds, increased subordinated investors' obligations to cover their short position, raised the threshold for subordinated investors to withdraw gains and lowered the concentration of any single stock to constantly strengthen risk control over the business, and made reasonable investments within the permitted scope in accordance with the CBRC's window guidance and policy requirements for structured products. As at the reporting period, the risks associated with this business were kept under control.

As at the end of the reporting period, the Company's wealth management funds invested in the equity-pledged financing business amounted to RMB24.442 billion, representing a substantial decrease as compared with that as at the end of the previous year, which was mainly due to the fact that the Company had vigorously lowered the share pledge ratio, raised the pre-warning/closing line, controlled the concentration of pledged shares and enhanced the restricted share pledge management since April 2015 to strictly prevent the market downturn risk, taking into consideration the gradual accumulation of investment risk due to the excessive growth in the domestic stock market within a short term. The Company has prudently and gradually relaunched the business of wealth management funds invested in the equity-pledge financing since the fourth quarter of 2015. As at the end of the reporting period, the risks associated with this business were controllable.

7. **The proprietary funds invested in non-standard debt assets, the resale to Party B under repurchase agreement (買入返售乙方) and the resale to Party C under repurchase agreement (買入返售丙方) (CMB as funding provider)**

As at 31 December 2015, the balance of the Company's proprietary funds invested in non-standard debt assets amounted to RMB684.791 billion, representing an increase of 87.40% as compared with that at the end of the previous year. Among which, the balance of our proprietary funds invested in non-standard debt assets under the credit category amounted to RMB238.384 billion, representing a decrease of 0.21% as compared with that at the end of the previous year. The non-performing ratio was 0.80%, up by 0.80 percentage point as compared with that at the end of the previous year. The balance of our proprietary funds invested in non-standard debt assets under the non-credit category amounted to RMB446.407 billion, representing an increase of 252.77% as compared with that at the end of the previous year. Such investment business developed on the basis of risk exposure of financial institutions were mainly classified into three categories: the first category comprises negotiated deposits or term deposits being placed with other commercial banks, which recorded a balance of RMB53.498 billion as at the end of the reporting period, representing a decrease of RMB3.734 billion as compared with that at the end of the previous year. The second category comprises the beneficiary rights to discounted bank acceptance bills and commercial acceptance bills, which recorded a balance of RMB380.090 billion as at the end of the reporting period, representing an increase of RMB320.632 billion as compared with that at the end of the previous year, which was mainly due to the fact that the Company had actively adjusted the asset structure and increased the volume of its interbank investment in bills assets in response to changes in the economic situation. The third category comprises creditor's beneficiary rights to other commercial banks (creditor's rights include wealth management products, domestic letter of credit, etc.), which recorded a balance of RMB12.819 billion as at the end of the reporting period, representing an increase of RMB2.967 billion as compared with that at the end of the previous year. The Company has enhanced and will continue to enhance risk review and compliance review in the use of funds, accurately measure risks and make adequate capital provision based on the nature of investment assets in strict compliance with the requirements of the "Notice on Regulating the Interbank Business of Financial Institutions" (Yin Fa [2014] No. 127). As at 31 December 2015, the balance of provision for our proprietary funds invested in non-standard debt assets under the credit category amounted to RMB4.774 billion, with an allowance ratio of 2.00%.

As at 31 December 2015, the balance of the Company's reverse repurchase businesses (CMB as funding provider) including the trust beneficiary rights under resale agreements, the asset management schemes and the debenture beneficiary rights aggregated to RMB25.724 billion, representing a decrease of 76.65% as compared with that at the beginning of the year. The three items of non-performing assets totalled RMB764 million with a non-performing loan ratio of 2.97%, of which RMB564 million is being claimed against the relevant financial institutions. It is estimated that the possibility to eventually record a loss on those assets is remote. The Company has made capital provision for these assets based on the risk exposure of corresponding financial institutions, and has ceased to engage in the third-party reverse repurchase businesses of the trust beneficiary rights and the asset management schemes as required by the "Notice on Regulating the Interbank Business of Financial Institutions" (Yin Fa [2014] No. 127), the existing transactions of which will be settled as contracted. As at the end of the reporting period, the balance of the Company's resale to Party C under repurchase agreement (買入返售丙方) amounted to RMB11.459 billion, down by 56.28% as compared with that at the end of the previous year.

8. Internet Finance

In 2015, in response to challenges from the Internet, interest rate liberalisation and financial disintermediation and the external unfavorable environment of economic downturn, internally, the Company promoted the overall development of Internet finance featuring "building service platforms, connecting to external traffic and conducting traffic operation (內建平台、 外接流量、 流量經營)", so as to transform its operation management into the Internet-based operation model. Externally, the Company focused on diversified cross-industry cooperation, promoted the innovation of the external competition and cooperation model, developed the cross-industry financial service platform, tapped external traffic and innovated its financial products and services. The optimised operation model has started to demonstrate the vitality of the eco-system, establishing CMB's unique competitive edge in the differentiated Internet finance.

As for retail finance, adhering to its strategy of "prioritising the development of mobile phone applications", the Company strove to migrate its customer services to mobile handset interface. Meanwhile, the Company focused on mobile phone application to restructure its internal and external service processes and promote the Internet-based operation across the Company. As at the end of the reporting period, total downloads of the mobile user application "CMB Life (掌上生活)" reached 62,720,000 times, the total number of registered users of CMB Life (掌上生活) reached 20,540,000, and the number of such active customers reached 18,390,900 during the year. For the relevant data on Mobile Banking, please refer to Section 5.10.4. As for the Internet account system, the Company has developed the "light" account product "All-in-one Net (一網通)" which has integrated various platforms including "CMB Life (掌上生活)", Mobile Banking and Online Banking, laying a solid foundation for obtaining external traffic and securing customers via both online and offline platforms. As for mobile payment, the Company has developed the card-free payment product "All-in-one Net Payment (一網通支付)" for its users, and introduced two-dimensional code, biometrics and other new interactive features. The Company has built into its credit cards a new hybrid payment tool "Yi Zhao Guo (一招過)" which connects merchants with users, thereby restructuring the restaurant vouchers and movie ticket system under the existing business system and rapidly expanding the volume of its offline consumption platform to seize the payment service market. The Company also jointly launched the VISA-Checkout with VISA and the HCE "All-in-one Mobile * Yun Shan Fu (一閃通·雲閃付)" with China Union Pay respectively, both receiving high recognition from all walks of life. Thanks to the cooperation with Apple through China Union Pay in mobile payment, the Company became one of the first card issuers supporting Apple Pay, and maintained a leading position among its peers in terms of market share. As for the online and offline service integration, the Company focused on mobile phone application to re-engineer the service processes of its existing outlets, fully explored and optimised the O2O "light" customer acquisition model, and improved the data-driven customer acquisition efficiency.

As for corporate finance, the Company continued to innovate its Internet technology and customer service model, tapped into innovative corporate customers' various demands for supply chain management, financial management and daily production and operation by capitalising on its Small Business E Home (小企業E家) platform, and has preliminarily built the point-to-point system for its corporate financial services. In order to meet Internet-based enterprises' demand for online payment and settlement service, guarantee transactions and offline collection and payment service, the Company has improved the mobile cheque service, E+ account service and other innovative products, thereby catering to enterprises' demand for non-office transactions and settlements in different banks and regions and at different time. As at the end of the reporting period, the number of registered customers of "Small Business E Home (小企業E家)" exceeded 10,000,000, and the number of customers using the mobile cheque service was over 240,000.

As for financial institutions finance, the Company stepped up the development of the Zhao Ying Tong (招贏通) financial institution investment and financing platform, promoted the transformation of its financial institution business towards "online and mobile Internet-based operation model", developed rapid and convenient transaction functions, and relied on its existing platforms to roll out the "official flagship store" business model, thus upgrading its services targeted at financial institution customers, and becoming the channel service platform and the financial institution resource-sharing platform covering its seven major product lines including "Yi Hu Tong (一戶通)", "Zi Chan Tong (資產通)", "Kua Jing Tong (跨境通)", "Li Cai Tong (理財通)", "Jiao Yi Tong (交易通)", "Piao Ju Tong (票據通)" and "Tuo Guan Tong (託管通)". During the reporting period, the number of customers of the "Zhao Ying Tong (招贏通)" financial institution wealth management business increased by 655 to 731, covering various financial institutions such as securities firms, trust companies, financial companies and insurance companies.

In 2015, the Company proactively forged a cross-industry alliance to explore the new development model of Internet-based finance service. As for living service finance, CMB and Didi Taxi (滴滴出行) have jointly announced a strategic cooperation in which they will commence comprehensive cooperation in capital, payment and settlement, finance, services and marketing in future. The "Didi Mode (滴滴模式)" jointly developed by both parties for payment cooperation has entered into the pilot run stage and will be launched in 2016. It is the first time for a commercial bank to enter into the mobile payment field through cooperation with a mobile Internet company. As for Internet-based consumption finance, CMB-China Unicom Consumption Finance Co., Ltd. (招聯消費金融公司) ("CMB-China Unicom Company"), jointly established by CMB and China Unicom, received its financial license and commenced trial operation in March 2015. It has also launched two flagship product lines known as "Hao Qi Dai (好期貸)" and "Ling Ling Hua (零零花)", both of which achieved remarkable results. As at the end of the reporting period, CMB-China Unicom Company had an aggregate of 6,468,700 registered users, the majority of whom were frequent users of small-amount consumption loans, with a credit size of RMB4.913 billion, a loan balance of RMB2.028 billion and a non-performing loan ratio of 0.63%. As for Internet-based asset trading, the Company and China Merchants Group Ltd. made a joint investment to register and establish a financial asset trading center in Qianhai, Shenzhen. By leveraging on the policy advantage in Qianhai and the most cutting-edge Internet technology, the Company has offered the cross-border financial asset trading services to institutional members and individual investors and forged a cloud-based wealth management platform.

9. Impact of new regulatory requirements for the deposit-to-loan ratio

On 29 August 2015, the decision to amend "The PRC Commercial Banking Law" was voted and approved by the Standing Committee of the National People's Congress, pursuant to which the regulatory indicators for the deposit-to-loan ratio was officially removed with effect from 1 October 2015. The promulgation of this policy will generally benefit the loan granting of the Company. However, due to the fact that credit resources are still subject to the requirements of capital adequacy ratio, coupled with the negative impact of macro-economic downturn and the deteriorated quality of loan assets as well as the Company's own liquidity management needs, the removal of the deposit-to-loan ratio may have limited impact on the grant of the Company's loans, but will have a positive effect on weakening the competition on securing deposits and controlling debt level. Subsequently, as for its assets, the Company will put in more efforts to support the financing demands of its customers while optimising its loan structure and customer portfolio, thereby propelling the development of real economy. As for its liabilities, the Company will fully take into consideration liquidity management and profit targets, and constantly optimise its liabilities structure and financing channels. Meanwhile, the Company will strive to reduce its liability cost and the financing cost for customers by increasing efforts to develop the non-deposit liability business, such as the increase in placements from banks and other financial institutions and the issuance of bonds, therefore promoting the stable development of all business segments.

## 5.9.2 Outlook and Measures

Looking into 2016, the economic and financial situation at home and abroad will remain complicated and volatile. Internationally, the normalisation of US monetary policies and the declining price of bulk commodities will trigger a series of deep-seated problems; European economic recovery will be overcast by geopolitical factors; and emerging economies will be more vulnerable to volatility. As such, the global economy can hardly shake off sluggishness, and the stability of international financial markets and cross-border capital flow will be further undermined. Domestically, the central government has set a clear goal to accomplish the five key tasks of "reducing overcapacity, destocking, deleveraging, cutting down costs and overcoming weaknesses". The balance sheets of commercial banks will be directly affected in the crucial stage of economic adjustment. Financial disintermediation will put more pressure on banks' earnings after full liberalisation of deposit interest rates, while new entrants in the financial market will trigger fiercer cross-industry competition.

Tough operating environment will bring many challenges to the Company. On the front of risk control, decelerating macro-economy will pose direct impact on asset quality and put more pressure on making provisions, while the complicated and volatile economic situation will fuel volatility in the financial market, posing a greater challenge to commercial banks' capability and competency in risk control. On the front of business operation, economic restructuring will reduce customers' appetite for traditional credit financing and further increase pressure on assets investment. In addition, interest rate cuts will restrict banks' bargaining power on quality customers, and financial disintermediation will further increase pressure on the growth of debts. On the front of earnings growth, worsening financial environment may urge regulators to raise the regulatory standards for risk control, capital management and indicators of commercial banks, which, coupled with the net interest margins adversely impacted by assets and debts, particularly, the increase in provision expenditures resulted from deteriorating asset quality, will inevitably lead to a slowdown in banks' earnings.

At the same time, however, reform of the economic and financial systems and industrial upgrading will bring to banks ample opportunities for further growth. Judging from the source of driving force, the three major drivers, namely policy adjustments for economic reform, capital flow and resources restructuring and spontaneous market evolvement and adjustment, will give birth to eight major growth opportunities for commercial banks: residential sector will still have room to explore while retail banking will have larger room for growth; the wealth and asset management market will increasingly expand, and diversified cross-market capital deployment will gear up onto a faster lane; the multi-layer capital market will grow more mature and reasonably reflect the investment value of listed companies, which will provide abundant opportunities for investment banking; investments will play a critical role in stabilising economic growth, and infrastructural construction in certain regions will still have room for faster growth with more assets to be allocated; the accelerated "going global" process of Chinese enterprises and globalisation of RMB will bring valuable opportunities for cross-border finance; regional coordinated development will surge with stunning growth and there will be vast market potential in regional transport integration, urbanisation construction, public services and other fields; emerging industries will grow mature and provide unmissable structural opportunities in the industries; and the dividend from reform of state-owned enterprises will release gradually, which will bring multiple opportunities for banking transformation and customer restructuring.

At a deeper level, enterprises' financing needs are experiencing structural changes "from lower end to upper end", "from debts to equities" and "from single market to multi-markets". "From lower end to upper end" means that enterprises in need of financing have gradually changed from traditional and mature enterprises at the lower end of their life cycles to hi-tech and innovative enterprises at the upper end of their life cycles; "from debts to equities" means that enterprises' financing methods have shifted from the heavily reliant traditional debt financing to equity financing, which was frequently referred to as financial disintermediation in the past; and "from single market to multi-markets" means that financing channels have changed from the previous single market and single financing method to multi-faceted market and multiple financing methods with a combination of equity and debt financing, domestic and overseas financing, and off- and on-shore financing as well as domestic currency and foreign currencies financing. Despite the lessened demand for traditional credit financing, emerging financing needs are becoming new growth drivers for banking businesses.

Confronted with both challenges and opportunities under the new situation, the Company will unwaveringly implement the transformation strategies of "Asset-light Banking" and "One Body with Two Wings", enhance risk management, deepen structural adjustments and promote system reform. Under the current operating environment, the Company plans to achieve a growth rate of approximately 11% and 9% respectively in proprietary loans and proprietary deposits in 2016. Meanwhile, the Company will allow only moderate growth in risk assets, vigorously optimise assets structure, raise capital utilisation ratio, and strive to "convert risk assets into good ones" by capitalising on existing credit resources. In 2016, the Company intends to take the following major initiatives: Firstly, enhance asset quality management by operating non-performing assets as a breakthrough to improve its overall risk management capability and fundamental management capability, so as to prevent its existing asset quality from deterioration; secondly, deepen structural reform to adjust its credit structure by reducing existing risk assets and utilising quality assets, improve its ability to acquire basic retail customers through Internet platforms, optimise the credit financing procedures and culture of corporate finance through implementing "customer list management", and raise the resource utilisation ratio by "either retaining or reducing risk assets"; thirdly, promote system reform of the second batch of its branches across the Bank, optimise the organisational structure of the Head Office, conduct system optimisation and put in place ancillary procedures, so as to establish the "customer-centric" operation system which is manifested not only in the "organisational structure", but also in the "operation systems".

# 5.10 Business Operation

In 2015, facing the challenging and complicated economic and financial situations, the Company continued to implement the transformation strategies of "Asset-light Banking" and "One Body with Two Wings", highlighted its operational features by leveraging on its own advantages, fortified its business foundation through strict risk control, promoted business operations primarily through structural adjustments, pushed forward reform-oriented transformation, and achieved sustained and rapid development of all business lines. The profit contribution of retail finance exceeded 50%, primarily driven by remarkably predominant businesses such as private banking, wealth management and credit card businesses and the continuous rapid growth of high-end customer base. The Company further featured its corporate finance and financial institutions finance, resulting in the fast growth in the number of core customers of transaction banking business and the volume of settlement deposits, and outraced its peers in investment banking, asset management, financial market and bills businesses in terms of business scale as it captured market opportunities in a timely manner. Meanwhile, the Company further optimised its assets and liabilities structure through promotion of asset-light operation and innovation efforts. As a result, the non-interest income business achieved rapid growth, demonstrating the effectiveness of asset-light banking gradually.

## 5.10.1 Retail finance

### Business overview

In 2015, the retail finance of the Company maintained a rapid growth in its profit contribution and steady improvement in value contribution. Its profit before tax reached RMB34.792 billion, representing an increase of 19.54% as compared with the previous year. As a percentage to the total profit before tax of the Company, it increased to 50.47%, representing an increase of 7.73 percentage points as compared with the previous year. The net operating income from the retail finance also maintained a rapid growth. It reached RMB89.186 billion, representing an increase of 30.04% as compared with the previous year, and accounting for 46.44% of the net operating income of the Company, up by 2.93 percentage points as compared with the previous year. Among which, the net interest income from retail finance reached RMB62.406 billion, representing an increase of 22.78% as compared with the previous year and accounting for 69.97% of the net operating income from retail finance of the Company; the net non-interest income from retail finance amounted to RMB26.780 billion, representing an increase of 50.81% as compared with the previous year and accounting for 30.03% of the net operating income from retail finance, and 44.96% of the net non-interest income of the Company. In 2015, the retail finance of the Company recorded a commission income of RMB9.353 billion from bank cards (including credit cards), representing an increase of 24.86% as compared with the previous year on the same calibre; the fee and commission income from retail wealth management was RMB17.079 billion, representing an increase of 83.86% as compared with the previous year and accounting for 66.04% of the net fee and commission income from retail finance.

In contrast to its domestic peers, the Company has always prioritised development of retail finance business, and promotes construction of its retail finance business system. It has developed a solid, premium and broad retail customer base by capitalising on its business management system, product system, service system and risk prevention system which are subject to improvement from time to time. The Company possesses outstanding competitive edge in such core retail businesses as wealth management, private banking, retail credit and consumer finance.

### Retail customers and total assets under management from retail customers

As at the end of December 2015, the number of retail customers of the Company reached 66.94 million, representing an increase of 19.00% as compared with the beginning of the year. Among which, the number of Sunflower-level and above customers (being retail customers of the Company with minimum total daily average assets of RMB500,000 per month) reached 1,647,600, representing an increase of 27.76% as compared with the beginning of the year. The balance of total assets under management (AUM) from our retail customers amounted to RMB4,749.6 billion, representing an increase of 36.88% as compared with the beginning of the year and an incremental increase of RMB635.0 billion as compared with the previous year. Among which, the balance of total assets under management from Sunflower-level and above customers amounted to RMB3,729.6 billion, representing an increase of 43.41% as compared with the beginning of the year, and accounting for 78.52% of the balance of total assets under management from retail customers of the Bank. The balance of deposits from retail customers amounted to RMB1,129.124 billion, representing an increase of 11.33% as compared with the beginning of the year. Of which, the percentage of demand deposits grew to 71.10%, up by 10.05 percentage points as compared with the previous year. According to the data released by the PBOC, the Company continued to rank first among domestic small- and medium-sized banks in terms of the balance and the increment of retail deposits. The total number of All-in-one Cards held by retail customers was 91.16 million, representing an increase of 19.92% as compared with the end of the previous year. The average deposit balance per All-in-one Card amounted to RMB11,100, almost unchanged as compared with the previous year; and the accumulated transaction amount of All-in-one Cards was RMB2,047.245 billion, representing a growth of 20.13% as compared with the previous year. The transaction amount of "All-in-one Card" via POS reached RMB907.3 billion, representing an increase of 11.96% as compared with the previous year.

In 2015, the Company further consolidated its retail customer base through a number of initiatives, thereby achieving steady growth in total assets under management (AUM) and volume of deposits from retail customers. During the reporting period, by drawing upon the development opportunities of Internet finance, the Company actively capitalised on opportunities brought about by Big Data and vigorously promoted the customer acquisition model through "light" channels. The Company also upgraded its services in all aspects and provided its customers with professional asset portfolio service according to their customised fund requirements as well as differentiated risk preferences and life cycles. At the same time, the Company strengthened analysis of market volatility and important policies, and increased efforts in prospective analysis of medium-term trend opportunities and risks and portfolio strategy, with a view to help customers preserve and enhance the value of their assets. In addition, the Company secured the settlement funds of the mass customers in daily life by providing various facilitation services including CMB Life (掌上生活), All-in-one Net and payment of utility fees, and solidified settlement funds of personal loan customers with complementary financing services and convenient settlement instruments. Furthermore, the Company continued to strengthen the development and promotion of new deposit products so as to cater for customers' demand for diversified and flexible deposit products, thereby effectively mitigating the impact of deposit migration as a result of various factors such as interest rate liberalisation, market volatility and diversified wealth management products.

### Wealth management

In 2015, the Company recorded RMB7,980.6 billion in accumulated sales of personal wealth management products, RMB605.7 billion in the distribution of open-ended funds, RMB105.4 billion in premium from agency distribution of insurance policies and RMB280.0 billion in agency distribution of trust schemes. Fee and commission income from retail wealth management business was RMB17.079 billion, representing an increase of 83.86% as compared with the previous year and accounting for 66.04% of net fee and commission income from retail finance. Among them, income from agency distribution of funds amounted to RMB7.511 billion, representing an increase of 164.29% as compared with the previous year; income from agency distribution of insurance policies amounted to RMB2.805 billion, representing an increase of 31.94% as compared with the previous year; income from entrusted wealth management amounted to RMB3.209 billion, representing an increase of 54.20% as compared with the previous year; income from agency distribution of trust schemes amounted to RMB3.429 billion, representing an increase of 63.60% as compared with the previous year.

During the reporting period, the Company actively responded to the sustained market volatility and intense competition from other industries, and assisted customers in recognising investment trends in the global market and in building a reasonable investment philosophy with authoritative global market research results constantly provided by the Investment Decision-making Committee from time to time. Moreover, the Company progressively diversified its wealth management product portfolio, formulated investment strategies, developed and implemented product investment portfolio, with a view to continuously create value for customers. In addition, the Company further improved customer service procedures for pre-sale, during sale and post-sale stages under the customer-centric principle, constantly launched the compliance education program for staff, strengthened the management of licensed sales and compliant sales, so as to establish a sound and compliant asset portfolio service system.

### Private banking

Our private banking business is conducted under the operating philosophy of "It's our job to build your everlasting family fortune", which provides high-net-worth individual, family and enterprise customers with professional, comprehensive and private services tailored to their diversified demands in respect of investment, taxation, legal affairs, M&A, financing and clearing. Our private banking business experienced a rapid growth during the reporting period. As at 31 December 2015, the Company had 49,032 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 49.12% as compared with the beginning of the year; total assets under management from private banking customers amounted to RMB1,252.1 billion, representing an increase of 66.37% as compared with the beginning of the year. During the reporting period, the net operating income (excluding credit card income) from customers holding private banking cards amounted to RMB4.821 billion, representing an increase of 31.97% as compared with the previous year. Currently, the Company has established a high-end customer service network consisting of 45 private banking centres and 62 wealth management centres.

In 2015, in order to proactively respond to market fluctuations, the Company continued to deepen customer management, strengthen self-initiated customer acquisition, establish overseas organisational framework, promote the development of market-research-driven products and implement asset allocation, and pushed forward the comprehensive upgrade of private banking business by providing various services including discretionary entrustment, tax planning, overseas equity trust, family trust, M&A financing and investment banking matchmaking, with a view to building an integrated financial service platform.

### Credit cards

As at the end of the reporting period, the Company had issued 69.17 million credit cards in total; the total number of active cards was 37.82 million, and 6.18 million new cards were issued during the reporting period. As at the end of the reporting period, the number of active credit cards users was 31.03 million, representing an increase of 19.03% as compared with the end of the previous year. The Company continued to improve the efficiency of customer acquisition and customer management. The cumulative transaction value of credit cards in 2015 was RMB1,819.5 billion, representing an increase of 36.67% as compared with the previous year, and the average transaction value per month of each active card was RMB4,331. The percentage of the revolving balances of credit cards was 24.72%. The balance of credit card overdrafts was RMB313.056 billion, representing an increase of 42.50% as compared with the end of the previous year. In 2015, the Company reclassified the income from credit card repayment by instalments from non-interest income to interest income. After the adjustment, interest income from credit cards for 2015 amounted to RMB26.729 billion, representing an increase of 56.81% as compared with 2014 (calculated on the same statistical calibre). Non-interest income from credit cards was RMB9.598 billion, representing an increase of 38.78% as compared with 2014 on the same calibre. Adversely affected by the downturn of the overall macro-economy of China, the non-performing loan ratio of credit cards business reached 1.37%, up by 0.43 percentage point as compared with the end of the previous year. As the Company actively improved risk pre-warning system, developed differentiated risk control strategy, introduced multi-dimensional monitoring technology based on Big Data and strengthened risk control measures including post-loan management, the quality of credit card assets maintained stable, the non-performing loan ratio stayed at a low level in the industry, and the risk exposure was under control.

During the reporting period, the Company continued to implement mobile Internet transformation for its credit card business by rolling out CMB Life 5.0 (掌上生活5.0) and pioneering with the user-oriented platform system, thereby achieving a successful transformation from a payment tool to an open platform with over 20 million subscribers; optimised its service channels primarily consisting of the smart "WeChat/Weibo customer service" platform, which brought into reality the "Internet+"-based integrated multi-channel services and improved customer's experience and enhanced its service value; vigorously promoted its asset-light customer acquisition model, improved its efficiency in acquiring customers using data-driven technology, and optimised its customer mix; improved and launched "online application + offline verification (網上申請， 網點核身)" project across the Bank to boost the cross-sales across the retail system of the Bank; continued to build the multi-level and multi-dimensional credit card product system by rolling out co-branded credit cards such as mobile Internet-based Hearthstone (爐石傳説), Menghuanxiyou (夢幻西遊) and Momo (陌陌), as well as Diamond Credit Card (鑽石信用卡) tailored for high-end customers and All-Currencies MasterCard (萬事達全幣卡) tailored for customers who have overseas spending needs, with a view to actively secure high-value customers through product innovation; launched the first Big Data-based smart marketing platform so as to improve the targeted marketing efficiency and operational capability of its high-yield businesses; focused on traffic and loyalty management, targeting at restaurant vouchers and movie tickets, being the two popular lifestyle activities for customers with a new hybrid payment product known as "All-in-one Payment (一招過)" which features one lump-sum payment by equity and cash and aims at improving customers' easy payment experience. In order to promote the mobile Internet-oriented transformation of points management, the Company piloted with a brand new management system for points accumulation, and launched various points promotional activities such as "Lucky Draw from Point Accumulation" (積分抽獎), "Accumulated points for bonus" (積分紅包) and "Crowd Funding Charity" (慈善眾籌); continued to improve customers' experience of using cards in overseas countries and regions through a number of special overseas marketing activities, with a view to maintaining its leading position in the overseas market, and launched Visa Checkout products ahead of its peers to benefit its customers with an easier and safer cross-border payment solution.

### Retail loans

As at 31 December 2015, the total retail loans of the Company amounted to RMB1,209.524 billion, representing an increase of 26.62% as compared with the beginning of the year and accounting for 46.71% of the total loans and advances to customers, up by 4.91 percentage points as compared with the end of the previous year. The creditworthiness and solvency of certain individual customers deteriorated due to weak macro-economic conditions, declining financing demand and accelerated risk exposures. As at 31 December 2015, the balance of the special mention retail loans of the Company amounted to RMB16.249 billion, representing an increase of 27.19% as compared with the end of the previous year, and the proportion of special mention retail loans remained unchanged as compared with the end of the previous year; balance of non-performing loans amounted to RMB13.032 billion with a non-performing loan ratio of 1.08%, up by 0.30 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 87.72% of the balance of new non-performing retail loans of the Company in 2015, representing a mortgage and pledge rate of 60.04%. Given that a vast majority of such new non-performing retail loans were fully secured by collaterals, the risk associated with non-performing retail loans was generally controllable.

In 2015, the Company responded to the market and customers' needs by actively supporting the development of housing finance and steadily increasing loans to small and micro- enterprises. As at the end of the reporting period, balance of housing loans of the Company was RMB491.266 billion, representing an increase of 52.87% as compared with the end of the previous year and accounting for 40.62% of retail loan of the Company. Meanwhile, the Company proactively carried out asset securitisation of housing mortgage, and became the third bank in China to offer securitised personal housing mortgage products. During the reporting period, the Company issued a total of RMB7.2 billion of securitised personal housing mortgage products. As at the end of the reporting period, balance of loans granted by the Company to small and to micro enterprises totalled RMB308.973 billion, representing a decrease of 7.94% (calculated on the Bank's calibre) as compared with the end of the previous year, and accounting for 25.55% of retail loans, down by 9.59 percentage points as compared with the beginning of the year.The non-performing loan ratio of loans granted to small and micro- enterprises was 1.54%, representing an increase of 0.46 percentage point as compared with the end of the previous year. During the reporting period, the floating ranges of weighted average interest rate of loans of the Company newly granted to small and micro-enterprise was 37.03%, up by 3.46 percentage points as compared with the previous year.

The Company put great emphasis on loan risk management and endeavoured to formulate a whole-process risk management system covering its front, middle and back office. During the reporting period, the Company actively strengthened the management of its retail credit team to enhance the team's professional risk management capabilities; steadily promoted centralised loan approval by the Head Office, with the proportion of retail loans subject to centralised approval accounting for more than 70%, suggesting a new stage of automatic investigation and approval for housing mortgage business. After years' development, the centralised loan approval centre of the Head Office has developed a number of diversified risk control tools, including information review and verification via Extranet. Meanwhile, the Company constantly optimised and applied the risk-control model to product policy formulation, loan approval, post-loan and other procedures, and basically established a standardised, systematic and data-based risk control system. In addition, after the release of loans, relying on the analysis of system and data, the Company achieved effective control over the work flow and strategy for post-loan collection, and built a standardised system comprising of pre-warning, loan recovery and disposal so that the Company was able to prevent default risks at an early stage and improve the post-loan management efficiency. Moreover, the Company constantly upgraded and improved the asset-light development of retail credit operating platforms, further enhanced the operational efficiency of the Cloud Mortgage PAD Platform and promoted the online operation of peer-to-peer lending serial products by successively launching various projects such as release of loans in peer-to-peer lending and supporting services associated with peer-to-peer lending.

## 5.10.2 Corporate finance

### Business overview

In 2015, in proactive response to external challenges and opportunities for its corporate finance, the Company focused on growing its customer base and strategic business transformation, accelerated formation of two major business systems, namely transaction banking and investment banking, and thus further enhanced its differentiated competitive edges. During the reporting period, the Company achieved profit before tax from corporate finance of RMB12.508 billion, accounting for 18.14% of profit before tax of the Company. In view of the narrowing interest spread due to interest rate cuts, weak external demand for credit loans and declining imports and exports, the net operating income from corporate finance of the Company was RMB74.491 billion, representing a decrease of 3.78% as compared with the previous year, and accounting for 38.79% of the net operating income of the Company. Among which, the net interest income from corporate finance amounted to RMB58.256 billion, representing a decrease of 4.27% as compared with the previous year, and accounting for 78.21% of the net operating income of corporate finance; and net non-interest income of corporate finance amounted to RMB16.235 billion, representing a decrease of 1.99% as compared with the previous year and accounting for 21.79% of the net operating income of corporate finance, and 27.25% of the net non-interest income of the Company.

### Corporate customers

In 2015, the Company proactively adjusted its customer mix based on the current economic situation for the purpose of prudential management, and replaced the granting of general loans with diversified financing services so as to actively implement the development strategy of operating as an asset-light bank and keeping abreast of the changes in customers' financing needs. The Company had 26,500 corporate borrowers, representing a decrease of 23.85% as compared with the beginning of the year.

During the reporting period, the Company continuously consolidated its customer base. The Company had 1,027,800 corporate depositors, exceeding one-million benchmark. Among which, more than 300,000 were new customers who opened accounts during the reporting period, representing an increase of 38.63% as compared with the previous year.

### Corporate loans

Corporate loan businesses of the Company include working capital loans, fixed asset loans, trade finance and other loans, such as M&A loans and corporate mortgage loans. As at 31 December 2015, total corporate loans of the Company amounted to RMB1,296.974 billion, representing an increase of 2.64% as compared with the end of the previous year and accounting for 50.09% of total loans and advances to customers. Among which, the balance of the medium to long-term loans to domestic enterprises amounted to RMB494.340 billion, accounting for 39.89% of the total loans to domestic enterprises, up by 0.59 percentage point as compared with the end of the previous year. The non-performing loan ratio of corporate loans was 2.60%, representing an increase of 1.01 percentage points as compared with the end of the previous year, which was mainly due to weaker solvency of enterprises during the economic downturn, as well as the stringent criteria of the Company for recognition of non-performing loans, which is aimed to reflect the quality of its loan assets in a more prudent way. The floating range of weighted average interest rates of new corporate loans in RMB decreased by 4.01 percentage points to 9.32% as compared with the previous year.

In 2015, the Company further optimised the industry distribution structure of corporate loans, giving priority to industries undergoing structural upgrading, traditionally competitive industries, strategic emerging industries, modern service sectors and green industries, and flexibly adjusted loans to real estate, local government financing vehicles and other industries in response to the changes in external operating environment. As at 31 December 2015, the balance of credit loans to strategic emerging industries was RMB55.913 billion, representing an increase of RMB3.627 billion as compared with the end of the previous year, and accounting for 4.31% of the total corporate loans of the Company; and the balance of green credit loans was RMB156.503 billion, representing an increase of RMB5.556 billion as compared with the end of the previous year, and accounting for 12.07% of the total corporate loans of the Company. For further details of loans extended to areas strictly regulated by the state such as the real estate industry and local government financing vehicles, please refer to Section 5.9.1 in this report.

The underlying data of our small enterprise businesses at the beginning of the year was updated as compared with the end of the previous year due to elimination of relevant data as a result of change in the classification of certain enterprises based on the calibre of the Company at the beginning of the year after they become larger. The Company proactively withdrew from granting loans to small enterprises with potential risks for prudent sake, so as to further prevent the general risk of granting loans to small enterprises against the backdrop of the current economic slowdown. In the meantime, in order to fully implement the development strategy of "Asset-light Banking", the Company proactively reduced the granting of general loans occupying relatively larger amounts of capital, and increased the use of bills of acceptance, letters of guarantee, letters of credit and other types of credits. Therefore, as at the end of the reporting period, the Company had a total of 783,100 small enterprise customers, representing an increase of 56.18% (calculated on the Bank's calibre) as compared with the beginning of the year. However, balance of the loans of the Company granted to small enterprises totalled RMB198.199 billion, representing a decrease of 14.02% over the beginning of the year, and accounting for 15.99% of domestic corporate loans, down by 3.32 percentage points as compared with the beginning of the year. Adversely affected by the weak financing demand of small enterprises and intensified competition in the industry, the floating range of weighted average interest rate of new small enterprises loans of the Company during the reporting period was 22.35%, down by 0.61 percentage point as compared with the previous year.

The "Qian Ying Zhan Yi (千鷹展翼)" program is a strategic brand of the Company to serve innovative emerging enterprises. During the reporting period, targeting at this group of customers, the Company adopted the "equity financing plus debt financing" model and focused on promoting the investment and loan coordination business model with "consultants plus investments" features, operating as an investment bank, so as to offer comprehensive services to innovation-oriented growth corporate customers. As changes in certain enterprises resulted in the updating of relevant data at the beginning of the year in accordance with the "Qian Ying Zhan Yi (千鷹展翼)" registration standards, the number of the "Qian Ying Zhan Yi (千鷹展翼)" customers at the beginning of the year was adjusted accordingly compared with the end of the previous year. As at 31 December 2015, the total number of registered customers reached 26,442, representing an increase of 25.60% as compared with the beginning of the year. The customers that have credit lines granted by the Company accounted for 47.55% of all registered customers, indicating a continuous expansion in our customer base; the credit lines granted to such customers amounted to RMB411.629 billion, representing an increase of 34.33% as compared with the beginning of the year; the balance of loans granted to such customers as at the end of the reporting period amounted to RMB158.285 billion, representing an increase of 22.05% as compared with the beginning of the year, more than the loans granted to other enterprises. As a high-quality customer base which the Company has been striving to expand, the "Qian Ying Zhan Yi (千鷹展翼)" program adopts the customer acquisition model of targeted marketing according to a specific target list. As its industry distribution structure is kept in line with the direction of economic transformation, its non-performing loan ratio was lower than the overall non-performing loan ratio of the Company's loans, which stood at 1.64%. As at end of the reporting period, 47 "Qian Ying Zhan Yi (千鷹展翼)" customers had completed IPO in China and opened special accounts to receive proceeds from IPO, with a total of RMB8.516 billion under custody.

In 2015, the Company continued to promote syndicated loan business to enhance inter-bank cooperation and information sharing and diversify the risks associated with large amount loans. As at 31 December 2015, the balance of syndicated loans amounted to RMB86.784 billion, representing an increase of RMB14.434 billion as compared with the end of the previous year.

### Discounted bills

In 2015, after taking into consideration its total credit, liquidities, gains and risks profile, the Company effectively allocated and promoted its discounted bills business. The volume of the directly discounted bills amounted to RMB1.55 trillion during the reporting period, ranking first among its peers for two consecutive years. As at 31 December 2015, balance of discounted bills amounted to RMB82.816 billion, representing an increase of 24.14% as compared with the end of the previous year and accounting for 3.20% of total loans and advances to customers.

### Corporate customer deposits

In 2015, the corporate customer deposits of the Company maintained steady growth with significant improvement in quality. As at 31 December 2015, the balance of corporate customer deposits amounted to RMB2,292.279 billion, representing an increase of 6.89% as compared with the end of the previous year; the daily average balance amounted to RMB2,163.282 billion, representing an increase of 9.89% as compared with the previous year; the demand deposits accounted for 50.11% of total deposits from our corporate customers, up by 5.30 percentage points as compared with the end of the previous year. In 2015, the average cost of deposits from corporate customers was 2.06%, down by 0.30 percentage point as compared with the previous year, indicating that the cost of deposits from corporate customers was under effective control in the context of interest rate liberalisation.

### Transaction banking business and offshore banking business

With respect to cash management business, the Company proactively responded to challenges arising from interest rate liberalisation by providing various types of customers with all-inclusive, multi-model and integrated cash management services, thereby making substantial contribution to the acquisition and retention of base customers, acquisition of low cost corporate settlement related deposits, and the cross-sales of other corporate and retail products. As at 31 December 2015, the total number of customers using cash management service of the Company reached 831,906, representing an increase of 51.74% as compared with the end of the previous year. Thanks to the Company's continuous efforts to forge the "C+ Cash Management Solution" brand, the number of newly opened accounts exceeded 210,000, and the number of newly issued "All-in-one Card for Company (公司一卡通)" reached 270,000. Basic cash management business experienced healthy development. The Company continuously pushed forward the innovation and promotion of various products such as "C + Account-deposits portfolio", Cross-Border Cash Pool, Virtual Cash Pool, Multi-level Cash Pool, and launched mobile terminals for Cross-bank Solution for Cash Management ("CBS"). The Company optimised cross-bank cash management products iteratively, and launched the "CBS5 Cash Management Cloud Service" (CBS5 財資管理雲服務), an innovative cross-bank cash management product, which effectively promoted the marketing of various key projects focusing on customs, tax, social security and housing provident funds. The number of group customers under management reached 485, and the number of companies under management exceeded 25,400.

With respect to supply chain finance, the Company further optimised all the transaction procedures for core customers through smart supply chain finance, established a product system which fully covers "settlement plus financing" offerings by adhering to the dual-core strategy of fostering the "core banking for core customers", focused on developing the innovative products such as C+ smart bill pool, payment agency service, platform-based supply chain, new financing channels for supply chain and provided tailored finance solutions for eight core industries including healthcare and medical care. In 2015, in adherence to the "customer-oriented" concept, the Company further tapped on its quality customers in the supply chain and raised the standards for core enterprises and their upstream and downstream customers. Calculated on the new statistical calibre, as at 31 December 2015, the Company had a total of 572 core customers in the supply chain and 10,537 customers from upstream and downstream industries, representing an increase of 247% and 264% (calculated on the same calibre) respectively as compared with the beginning of the year. The balance of supply chain finance amounted to RMB67.998 billion, representing an increase of 60.88% as compared with at the end of the previous year.

With respect to integrated financing for domestic trade as well as for domestic and foreign trade, the Company focused on innovation of integrated financing products for domestic trade and foreign trade, and completed the first offshore and onshore transaction in the industry via BPO, a new settlement channel. The Company also proactively made adjustments to its distribution structure of financing assets, focused on promoting innovation of businesses involving the use of domestic letter of credit, and aggressively developed cross-bank domestic letter of credit business, with a view to effectively save capital. During the reporting period, the trading volume of cross-bank domestic letter of credit business calculated on full statistical calibres amounted to RMB71.1 billion, representing an increase of 332.24%; the total amount of domestic letter of credit issued reached RMB238.811 billion, representing an increase of 3.94% as compared with the previous year; and the amount of domestic trade financing provided totalled RMB515.693 billion, representing an growth of 15.90% as compared with the previous year.

With respect to corporate card business, thanks to coordinated marketing of retail and corporate lines, the Company had issued a total of 122,200 corporate cards as at 31 December 2015. Intermediary business income amounted to RMB108 million during the reporting period.

With respect to cross-border finance business, the Company increased efforts in the innovation of asset-light products by capitalising on structural development opportunities, committed to promoting the rapid development of "Cross-border Zi Ben Tong (跨境資本通)", upgraded the smart cross-border finance platform and successfully launched the Global Cash Management Project (全球現金管理項目) (Phase I). Despite a decline in both imports and exports under unfavourable external situations, the Company completed onshore international settlements of USD307.604 billion, representing a slight increase of 0.42% as compared with the previous year; cross-border Renminbi settlements of RMB830.807 billion, representing an increase of 19.08% as compared with the previous year, the market share of our cross-border payments was 3.53%, up by 0.14 percentage point as compared with the beginning of the year, and ranking second among all domestic small- and medium-sized banks (based on the statistics of the State Administration of Foreign Exchange); foreign exchange settlements for customers of USD175.233 billion, representing a growth of 9.73% as compared with the previous year, and a market share of 4.48%, up by 0.12 percentage point as compared with the beginning of the year, and ranking first among all domestic small- and medium-sized banks (based on the statistics of the State Administration of Foreign Exchange). The number of onshore customers of our international business reached 65,958, representing a growth of 19.11% as compared with the previous year. Affected by the adverse external conditions such as slow recovery of the global economy and the inadequacy of effective financing needs of foreign trade enterprises, as well as the internal policies which the Company adopts to cease loan granting to the high-risk customers whose transactions were verified to be merely cross-border arbitrage in strict compliance with the prudent macro-regulatory requirements of the State Administration of Foreign Exchange, the Company granted accumulated international trade facilities of USD21.935 billion, representing a decrease of 40.73% as compared with the previous year, and handled international factoring of USD8.899 billion, representing a decrease of 46.45% as compared with the previous year, and international forfeiting of USD9.936 billion, representing a decrease of 46.16% as compared with the previous year.

With respect to offshore business, the Company increased efforts in marketing and promotion of offshore business with a view to enlarging its customer base and solidifying its business foundation, thereby realising a steady growth in offshore business. As at 31 December 2015, the number of offshore customers reached 39,700, representing an increase of 26.43% as compared with the beginning of the year; offshore international settlement amounted to USD283.178 billion, representing an increase of 48.00% as compared with the previous year; and deposits from offshore customers amounted to USD16.336 billion, representing an increase of 35.18% as compared with the beginning of the year. As a result of the deteriorated foreign trade situation and foreign exchange rate fluctuation, balance of offshore loans amounted to USD6.765 billion, representing a decrease of 25.83% as compared with the beginning of the year; credit assets remained good with a non-performing loan ratio of 0.55%. The cumulative net non-interest income reached USD132 million, which remained stable as compared with the previous year.

### Investment banking business

In order to further implement the strategy of "One Body with Two Wings", in 2015, the Company strengthened its investment banking division by making appropriate adjustments, established four major business systems, namely debt capital market system, M&A finance system, structured financing system, equity capital market system, and diversified their respective investment banking product systems, thereby initially achieving embedded risk management and promoting the steady development of various businesses.

With respect to bond underwriting business, the Company vigorously developed financial bonds and assets securitisation businesses with a focus on perpetual bonds and ultra-short-term commercial papers in 2015. During the year, the Company led the underwriting of bonds of RMB400.394 billion, representing an increase of 64.46% as compared with the previous year, ranking fifth among its domestic peers and first among the national small-and medium-sized banks respectively. Specifically, the amount of short-term commercial notes underwritten by the Company ranked first (according to the rankings by Bloomberg) in the market, while the amount of financial bonds underwritten by the Company ranked second (according to the rankings by WIND). The Company underwrote 521 bonds, representing an increase of 61.80% as compared with the previous year. During the year, income from our lead underwriting business reached RMB1.462 billion, representing a growth of 90.74% as compared with the previous year.

With respect to M&A finance business, the Company has achieved a leap forward in both volume and efficiency and forged a well-received market brand image. During the year, the Company completed a series of professional and complicated projects with significant influence, and took a leading position in privatisation of China concept stocks and large M&A syndicated financing business. Thanks to the constant improvement and innovation in its business models, the Company achieved the zero breakthroughs in M&A matchmaking transactions, and realised seamless link-up between M&A bridge financing and corporate wealth management. Moreover, the Company also explored to lead syndicated commitment so as to enhance distribution capabilities. During the year, a total of RMB46.840 billion was granted for financing M&A activities, representing an increase of 64.18% as compared with the previous year. Income from M&A intermediary business reached RMB542 million, representing an increase of 216.37% as compared with the previous year.

## 5.10.3 Financial institutions finance

### Business overview

Since the establishment of the financial institutions finance segment of the Company in late 2013, all business lines of this segment saw rapid development. The financial institutions finance of the Company continued to record stable growth in profits with increasing value contribution. During the reporting period, the financial institutions finance of the Company realised pre-tax profit of RMB22.983 billion, up by 41.88% as compared with the previous year, accounting for 33.34% of the profit before tax of the Company, up by 9.55 percentage points as compared with the previous year; the operating income was RMB26.448 billion, representing an increase of 40.29% as compared with the previous year, and accounting for 13.77% of the operating income of the Company. In particular, net interest income was RMB11.466 billion, up by 24.25% as compared with the previous year, and the net non-interest income was RMB14.982 billion, up by 55.66% as compared with the previous year.

### Financial institutions finance

The Company intensified construction of channels and enhanced value contribution from its financial institutions customers for the purpose of deepening comprehensive cooperation with its customer base of financial institutions; proactively responded to changes in the market and regulatory policies and adjusted and optimised the structure of the over-the-counter treasury business to generate more revenue;the cross-border RMB interbank collaboration business and bills business of the Company saw a rapid growth and maintained their leading position in the industry. As at 31 December 2015, the balance of placements from banks and other financial institutions reached RMB702.862 billion, representing an increase of 0.40% as compared with the beginning of the year. Among which, the proportion of demand deposits increased by 24.52 percentage points as compared with the beginning of the year to 58.51%, indicating optimization of the deposit structure; the balance of over-the-counter assets with other financial institutions such as placements with other banks and assets purchased under resale agreements (including bills and beneficial rights) amounted to RMB147.4 billion as at the end of the reporting period, down by 62.30% as compared with the beginning of the year, mainly due to gradual settlement and clearance upon maturity of suspended businesses; the balance of funds under third-party custody amounted to RMB173.517 billion, representing an increase of 53.52% as compared with the beginning of the year, and the total number of customers under third-party custody business was 6,445,400, representing an increase of 51.66% as compared with the beginning of the year. During the reporting period, as the Company sped up the turnover of bills and shortened the duration of transactions, the trading amount of discounted bills business for the whole year reached RMB33,711.952 billion, representing an increase of 270.06% as compared with the previous year; the rediscount business with the central bank amounted to RMB69.953 billion, representing an increase of 16.26% as compared with the previous year; the volume of interbank cross-border RMB clearing service reached RMB2,260.0 billion, representing an increase of 187.90% as compared with the previous year, and the total number of clearing accounts amounted to 132, representing an increase of 19 as compared with the beginning of the year. The number of interbank cross-border RMB clearing accounts ranked first among national small- and medium-sized banks. As for the settlement and custody of margin trading and short selling, the Company maintained business cooperation with 73 securities firms including 9 new firms who just commenced cooperation with the Company during the year.

The Company has been qualified as a futures margin depository bank on China Financial Futures Exchange (CFFEX), Zhengzhou Commodity Exchange (ZCE), Dalian Commodity Exchange (DCE) and Shanghai Futures Exchange, and also as a member of Shanghai Clearing House for comprehensive foreign exchange settlements. As at 31 December 2015, the balance of all types of deposits of the Company from futures exchanges and futures companies was RMB7.637 billion with 271 futures margin depository accounts.

## Other Financial Businesses

*Asset management business*

During the reporting period, the wealth management business of the Company maintained a good development momentum. The Company issued an aggregate of 8,330 wealth management products in the year, and recorded an aggregate of RMB13.40 trillion in the sales of bank-wide wealth management products, representing an increase of 83.81% as compared with the previous year. As at the end of the reporting period, the balance of wealth management business of the Company amounted to RMB1,820.693 billion, representing an increase of 118.97% as compared with the beginning of the year.

In addition to the rapid increase in volume, the wealth management business of the Company also made a number of achievements in other fields as follows.

Firstly, business transformation was continuously deepened. According to regulatory requirements, the Company increased the development and issuance of net-value products, and promoted net-value management of interest rate products. As at the end of the reporting period, the balance of net-worth products amounted to RMB961.702 billion, representing an increase of 296.33% as compared with the beginning of the year, and accounting for 52.82% of the balance of wealth management business, up by 23.64 percentage points as compared with the beginning of the year.

Secondly, quality assets were sought extensively. In 2015, in response to changes in risk appetite in the market, the Company increased its bond asset investments and carried out actively-managed external investments under custody in cooperation with asset management institutions of other financial institutions; made investments in securitised assets and government-guided funds in a scientific way in line with market trend;invested in non-standard debt assets within the quota limit in strict compliance with the regulatory guidance. As at the end of the year, the balance of the wealth management funds of the Company invested in non-standard debt assets amounted to RMB168.761 billion. The non-standard debt assets were mainly from lending companies and banks and other financial institutions in the industry. Based on its analysis on the credit standing of borrowers and the source of repayment funds of investment projects, the Company selected to invest mainly in projects which had good credit standing, and for which the source of repayment funds could be verified and projects covered by adequate cash flow. As a result, our asset quality did not deteriorate obviously. In addition, the Company prudently carried out the business of wealth management funds invested in beneficiary rights of margin financing and securities lending as well as the margin financing in the secondary stock market, and strictly implemented the equity-pledged financing standards. For details, please refer to Section 5.9.1 of this report.

Thirdly, remarkable results were achieved in product innovation. In 2015, the Company was the first to launch the following products in China: successfully completed the first QDIE (Qualified Domestic Investment Enterprise) transaction across the country after pilot implementation of the QDIE policy in Qianhai, Shenzhen; piloted the first property fee asset securitisation product in the country, namely the "Special Plan for Securitisation of Property Fee Asset of Shimao Tiancheng (世貿天成物業資產支持專項計劃)"; and issued the first inter-bank open-ended net value structured product, namely the "Ririying Structured Wealth Management Plan (日日盈分級理財計劃)". During the reporting period, in order to capture business opportunities emerging in the domestic capital market, the Company increased creation and issuance of equity-related products and improved the overall competitiveness of its products. The Company innovated and launched the "Zhiyuan" and "Hongyuan" equity plus debt product portfolios for investment in private placement assets and hedge funds, and the "Hengruibohui" direct equity investment products for investment in the Sunshine Private Placement Funds in the secondary market leveraging on the manager of managers fund("MOM") mode.

*Asset custody business*

As a typical example of the Company's transformation into an asset-light bank, our asset custody business experienced rapid growth in 2015, recording a historical high in terms of volume and income of assets under custody, as well as in product offerings. As at the end of the reporting period, the balance of assets under custody amounted to RMB7,155.779 billion, representing an increase of 101.97% as compared with that at the beginning of the year; the accumulative custody fee income amounted to RMB3.567 billion, representing a year-on-year increase of 68.89%; the number of asset custody projects reached 11,506, representing an increase of 48.71% as compared with that at the beginning of the year. In respect of the asset custody business, the Company has not only realised full coverage of its customer base of assets under custody, but also established a relatively balanced and diversified business structure to effectively mitigate the impact of market volatility on its custody business. During the reporting period, the Company took further steps to push ahead its custody services and system innovation by focusing on service upgrading. In respect of services, the Company became one of the first recognised outsourcing service providers for funds approved to be registered with Asset Management Association of China and also the first institution in the industry offering a full range of services for QDIE cross-border innovative products, including custody and administrative services. In respect of the system, the Company successfully launched its proprietary G2 core business system for asset custody and took the lead to realise direct connection with the systems of China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限公司), China Bonds Depository and Clearing Corporation Limited (中國債券登記結算公司) and Shanghai Clearing House, thus maintaining its leading position in the industry in terms of custody system, and providing its custody service customers with safe, efficient and professional "Valuation at One Key (一鍵估值)" custody services.

*Financial markets business*

RMB investment business: the Company, after conducting an intensive study on the domestic financial market, grasped the trend of local-currency bond market and formulated its investment plan in a scientific way. Firstly, the Company aggressively extended the duration of its investments. The incremental investments were primarily medium to long-term bonds with maturity of 5 years or above, prioritising on government bonds and credit bonds with good credit standing. Secondly, the Company proactively adjusted and optimised the structure of its portfolios by capitalising on the opportunities brought about by fluctuations in interest rates and credit spreads, and reinforced analysis and management of credit bonds to increase earnings. As at the end of the reporting period, the balance of RMB bond portfolio of the Company was RMB740.621 billion, with a portfolio duration of 4.08 years and a portfolio yield rate of 4.02%.

Foreign currency investments: the Company seized opportunities to increase investments based on its judgment on the international market situation. Firstly, the Company implemented a prudent investment strategy by controlling its investment pace and the duration of its new investments. Meanwhile, the Company actively participated in the spread transactions of newly issued bonds and range trading operation to realise interest spread gains. Secondly, the Company proactively developed secondary market operations and derivative products to increase returns of debt portfolio. As at the end of the reporting period, the balance of the foreign exchange investment portfolio Company amounted to USD4.242 billion, with a portfolio duration of 2.12 years and the portfolio yield of 2.65%.

In 2015, the Company's spot trading volume of bonds reached RMB3,170.6 billion, representing an increase of 54.58% as compared with the previous year; the trading volume of RMB-denominated options reached USD80.5 billion, representing an increase of 98.77% as compared with previous year; the trading volume of RMB interest rate swap business reached RMB1,260.8 billion, representing an increase of 1,261.56% as compared with the previous year; the trading volume of RMB exchange rate swaps reached RMB2,863.6 billion, representing an increase of 50.00% as compared with the previous year. According to the data from the China Foreign Exchange Trade System and the National Interbank Funding Center, the trading volume of RMB options in the interbank market and the volume of RMB interest rate swap transactions of the Company both ranked first in the whole market.

## 5.10.4 Distribution channels

The Company provides products and services via multiple distribution channels. Our distribution channels are mainly divided into physical distribution channels and e-banking channels.

### Physical distribution channels

The efficiently operated physical outlets of the Company are primarily located in the economically developed regions of China such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large- and medium-sized cities in other regions. As at 31 December 2015, the Company had 132 branches, 1,575 sub-branches, one exclusive branch-level operation center (credit card center), one representative office, 3,202 self-service centers, 12,495 self-service machines (including 2,197 Automatic teller machines and 10,298 cash recycle machines) and 2,618 visual counters, 2 subsidiaries, namely CMB Financial Leasing and China Merchants Fund, and 1 joint venture, namely CIGNA & CMB Life Insurance in more than 130 cities of Mainland China. The Company also has a number of subsidiaries including Wing Lung Bank and CMB International Capital, and a branch in Hong Kong; a branch and a representative office in New York, the United States; a branch in Singapore; a representative office in both London and Taipei; and a branch in Luxembourg. In addition, the London Branch of the Company has been approved to commence operation by the British regulatory authority on 19 January 2016.

### E-banking Channels

The Company attaches great importance to developing, improving and integrating e-banking channels such as mobile banking, online banking and direct banking, which has received high social recognition and effectively relieved the pressure on physical outlets of the Company.

*Mobile banking*

The personal mobile banking business of the Company continued to maintain rapid growth in 2015 as mobile banking customers were increasingly active with an aggregate of 1.589 billion logins in the Bank's mobile banking application, making it the most dynamic e-channel for customers of the Company. As of 31 December 2015, the aggregate number of downloads of the Bank's mobile banking application reached 63,154,800, and the aggregate number of customers who downloaded the application reached 27,588,800, of which 18,615,600 users were active customers during the year. Meanwhile, the number of mobile banking transactions and volume of mobile payments have been increasing rapidly. In 2015, the total cumulative number of mobile banking transactions amounted to 2.525 billion, up by 182.10% as compared with the previous year; and the cumulative transaction amount reached RMB9.20 trillion, up by 158.51% as compared with the previous year. Of which, the cumulative number of mobile banking transactions was 535 million, up by 137.28% as compared with the previous year; and the amount of mobile banking transactions was RMB8 trillion, up by 155.60% as compared with the previous year; the cumulative number of mobile payment transactions was 1.990 billion, up by 197.18% as compared with the previous year; and the accumulated amount of mobile payment transactions was RMB1.20 trillion, up by 179.75% as compared with the previous year.

During the reporting period, the Company launched its Mobile Bank 4.0 with such core functions as real-time interconnection, intelligent services and natural interaction, realising the leaped development in system structure, function innovation and user experience, and made a first stride forward in the transformation from a transaction-based APP to an operation-based platform featuring self-service and self-selling. The Mobile Bank 4.0 officially applied the unified and open user system "All-in-one Net", in which customers may get access into CMB's various platforms with "a mobile phone number and a password", thus realising the goal of "light account, all-in-one net (輕賬戶、全網通)". In addition, the Company continued to optimise and upgrade its "WeChat Banking", and the number of users has currently reached 10.32 million, establishing a diversified multi-facet light intelligence service model.

As at 31 December 2015, the number of users of corporate mobile banking services of the Company amounted to 253,000. The total number of transactions including account enquiries, payments and settlements completed through corporate mobile banking reached 6,670,000 in the year, which effectively met our corporate customers' demand for mobile financial services, and has become an online marketing and service channel targeting corporate customers.

*Online banking*

The online banking business of the Company maintained a healthy growth in 2015, with a steady increase in the number of users and more frequent use of online banking.

As for the retail online banking business, as at the end of 2015, the number of active users of the retail online banking professional edition of the Company reached 20,996,100, and the online banking replacement ratio was 96.51%, representing an increase of 2.89 percentage points as compared with the previous year. During the reporting period, customers increasingly used mobile phones and other mobile handsets to get access to online financial services along with continuous development of Internet finance. As the PC-based e-bank professional version was negatively affected by the change of transaction habits and the diversification of transaction channels, the total cumulative number of online retail finance transactions was 1.152 billion, representing a decrease of 6.27% as compared with the previous year; however, the accumulated transaction amount reached RMB30.53 trillion, representing an increase of 17.29% as compared with the previous year. Specifically, the cumulative number of online banking transactions was 398 million, up by 12.43% as compared with the previous year; and the accumulated amount of online banking transactions was RMB29.71 trillion, up by 17.76% as compared with that the previous year; the cumulative number of online payment transactions was 754 million, down by 13.83% as compared with the previous year; and the accumulated amount of online payment transactions was RMB820 billion, up by 2.50% as compared with the previous year.

As for its corporate online banking business, thanks to the growth of basic customers mainly driven by the "C+ cash management solution", as at 31 December 2015, the total number of corporate online banking customers of the Company reached 825,411, representing an increase of 52.09% as compared with the end of the previous year. The accumulated number of corporate online banking transactions of the whole Bank was 129.65 million, representing an increase of 70.64% as compared with the previous year. The accumulated transaction amount of corporate online banking transactions of the whole Bank amounted to RMB83.49 trillion, representing an increase of 72.25% as compared with the previous year.

*Direct banking*

The direct banking service provided by the Company integrates the convenience of direct banking channels and the face-to-face service at counters. Under direct banking, direct banking relationship managers provide customers with real-time, comprehensive, fast and professional service, including a variety of banking transactions, investment and financial advisory services, one-stop loan services and product selling services. The direct banking mainly offers business advisory and transaction, visual counters, online loan service, online wealth management, direct transactions, distant assistant service and online interactive service.

In 2015, the Company constantly improved the service capability and customer experience for its direct banking in accordance with the general targets of implementing "service upgrading" and "Asset-light Banking" throughout the bank. As a result, the online intelligent services accounted for 43.21%, up by 9.94 percentage points as compared with the previous year; the manual telephone access ratio reached 97.30%; the percentage of manual telephone responses within 20 seconds reached 91.46%; and the customer service satisfaction ratio reached 99.27%, up by 0.93 percentage points as compared with the previous year, all setting a record high.

## 5.10.5 Overseas businesses

Hong Kong Branch

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

In 2015, leveraging on the advantages of Hong Kong as the bridgehead of China's foreign economic and trade activities and as one major international finance center of the world, the Hong Kong Branch grasped the market opportunities brought about by Chinese enterprises "going global" and the "One Belt, One Road" strategy to constantly promote cross-border business coordination, proactively develop the local market and rapidly expand its share in the retail banking market. Meanwhile, the Hong Kong Branch further strengthened its risk compliance and internal fundamental management, constantly improved and innovated its product and service systems and strove to explore the asset operation model. However, due to drastic changes in the external operating environment and poor performance in the cross-border business coordination, the Hong Kong Branch recorded a decrease in net operating income and profit before tax as compared with the previous year. During the reporting period, the Hong Kong Branch realised net operating income of HK$1.922 billion, profit before tax of HK$1.658 billion and profit per capita for the whole year of over HK$10.76 million.

### New York Branch

Established in 2008, the Company's New York Branch provides various services including corporate deposits, corporate loans, project financing, trade financing, cash management, M&A financing and advisory for enterprises and financial institutions in China and the U.S.. With strong support from the parent bank and focusing on the U.S. market, the New York Branch, as an integral part of internationalisation of the Company, is committed to providing a featured cross-border financial platform characterised by mutual coordination, while serving as a showcase and platform in improving the international management level and global service capabilities of the Company.

In 2015, in addition to its traditional cross-border businesses, the New York Branch grasped the business opportunities brought about by privatisation of China concept stocks and overseas M&A deals of Chinese private enterprises to handle several privatisation deals and cross-border M&A deals. Meanwhile, the New York Branch exerted its own advantage to establish a M&A consultancy and syndication team and develop the coordinated service capability as an investment banker and a trading company, and successfully carried out the cross-border investment consultancy business and the cross-border non-standard asset custody business. During the reporting period, the New York Branch realised the profit before tax of USD60.09 million, representing an increase of 7.47% as compared with the previous year.

### Singapore Branch

Established in November 2013, the Singapore Branch of the Company is mainly positioned as a significant cross-border financial platform in Southeast Asia, which is committed to providing high quality and comprehensive cross-border finance solutions to Chinese companies "going global", Singaporean companies "being brought in" and high net-worth individual customers. In addition to the general deposit and loan services, it also offers featured products including delisting financing, M&A financing, Cross-border Trade Express, global financing and cross-border settlement and sales of foreign exchange without solution pay.

In 2015, the Singapore Branch adhered to its strategy of developing cross-border finance and local businesses simultaneously, and expanded its M&A financing and other emerging businesses vigorously, thus realising steady growth in each business line. During the reporting period, the Singapore Branch grasped policy opportunities successfully arranged cross-border RMB loans under the global financing mode for enterprises within the Guangxi Yanbian Comprehensive Financial Reform Experimental Zone, completed the first cross-border loan deal under the Yanbian financial reform policy, and successfully promoted the M&A business of Singapore enterprises in China. Local businesses of the Singapore Branch were gradually transforming towards coordinated development of customer base expansion, business growth and capital intensity. During the reporting period, the Singapore Branch realised net operating income of USD17,120,000, up by 6.20% as compared with the previous year.

### Luxembourg Branch

Established in March 2015, the Luxembourg Branch of the Company is an important cross-border financial platform in the EU region. It provides diversified services including corporate deposits, corporate loans, project financing, trade financing, M&A financing, M&A consultancy, bond distribution and underwriting, cash management and asset management for enterprises "going global" from China and "being brought in" from Europe. It is committed to establishing a private banking platform of the Company in Europe on the basis of the superior businesses of the parent bank combined with the special advantages of Luxembourg. During the reporting period, the Luxembourg Branch carried out every business line in an orderly way, with total assets of €194 million and net operating income of €709,400.

## 5.10.6 Wing Lung Group

Founded in 1933, Wing Lung Bank has a capital of HK$1.161 billion as at 31 December 2015, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of Wing Lung Bank and its subsidiaries ("Wing Lung Group") comprise deposit-taking, lending, investment and wealth management, credit cards, online banking, documentary bills, leasing and hire purchase loans, foreign exchange, futures and securities brokerage, asset management, insurance business, Mandatory Provident Fund, property management, trustee, nominee and investment banking services. At present, Wing Lung Bank has a total of 38 banking offices in Hong Kong, 4 branches and sub-branch in Mainland China, one branch in Macau, and three overseas branches, located respectively in Los Angeles, San Francisco, the United States and the Cayman Islands. As at 31 December 2015, the total number of employees of Wing Lung Group is 1,945.

In 2015, profits attributable to the shareholders of Wing Lung Group was HK$3.250 billion, representing an increase of 2.56% as compared with the previous year. In 2015, it recorded a net interest income of HK$3.870 billion, representing a decrease of 0.70% as compared with the previous year. The net interest margin was 1.61%, down by 11 basis points as compared with the previous year. Net non-interest income was HK$2.088 billion, representing an increase of 24.67% as compared with the previous year. The cost-to-income ratio for 2015 was 33.28%, representing an increase of 1.12 percentage points as compared with the previous year. The non-performing loan ratio (including trade bills) was 0.07%.

As at 31 December 2015, the total assets of Wing Lung Group amounted to HK$256.976 billion, representing an increase of 3.80% as compared with the end of 2014. Total equity attributable to shareholders amounted to HK$26.433 billion, representing an increase of 14.59% as compared with the end of 2014. Total loans and advances to customers (including trade bills) amounted to HK$146.104 billion, representing a decrease of 5.17% as compared with the end of 2014. Deposits from customers amounted to HK$180.213 billion, representing a decrease of 1.74% as compared with the end of 2014. Loan-to-deposit ratio was 64.42%, up by 0.95 percentage point as compared with the end of 2014. As at 31 December 2015, the total capital ratio of Wing Lung Group was 17.30%, its Tier-1 capital ratio was 13.54% and its common equity Tier-1 capital ratio was 11.64%. The average liquidity maintenance ratio for the reporting period was 41.72%, all above regulatory requirements.

For detailed financial information on Wing Lung Group, please refer to the 2015 annual report of Wing Lung Bank, which is published at the website of Wing Lung Bank (www.winglungbank.com).

## 5.10.7 CMB Financial Leasing

CMB Financial Leasing is one of the five pilot bank-affiliated financial leasing firms approved by the State Council. Registered in Shanghai, it is wholly owned by the Company and commenced operation on 23 April 2008. CMBFL is guided by national industrial policies, and is mainly engaged in the provision of financial leasing services in respect of large and medium-sized equipments to domestic large enterprises and SMEs and overseas customers in electricity, manufacturing, transportation, construction and mining sectors. It satisfies different needs in respect of procurement of equipment, promotion of sales, revitalisation of assets, balancing of tax liabilities and improvement of financial structure. CMBFL also provides new financial leasing services such as capital and commodity finance (融資融物), asset management and financial advisory.

As at 31 December 2015, CMBFL had a registered capital of RMB6.0 billion and 184 employees; total assets of RMB103.966 billion, up by 0.56% as compared with the end of the previous year; net assets of RMB11.998 billion, up by 16.14% as compared with the end of the previous year. In 2015, CMBFL realised net profit of RMB1.496 billion, up by 5.13% as compared with the previous year.

## 5.10.8 CMB International Capital

Established in 1993, CMB International Capital is a wholly-owned subsidiary of the Company in Hong Kong. Currently, the business scope of CMBIC and its subsidiaries mainly covers investment banking, securities brokerage, asset management, wealth management and equity investments.

As at 31 December 2015, CMBIC had a registered capital of HK$1.0 billion, 163 employees, total assets of HK$3.306 billion, representing an increase of 25.85% as compared with the beginning of the year and net assets of HK$2.045 billion, representing an increase of 10.18% as compared with the beginning of the year. In 2015, CMBIC achieved net profit of HK$344 million, representing an increase of 6.50% as compared with the previous year.

On 20 January 2016, the Company increased its capital contribution to CMBIC by USD400 million. The registered capital of CMBIC upon completion of the capital increase was increased to HK$4.129 billion.

## 5.10.9 China Merchants Fund

CMFM was established on 27 December 2002 with a registered capital of RMB210 million. As at the end of the reporting period, the Company had 55% equity interest in CMFM. The businesses of CMFM include fund establishment, fund management and other operations approved by the CSRC.

As at 31 December 2015, CMFM reported total assets of RMB3.211 billion, up by 40.46% as compared with the end of the previous year, net assets of RMB1.439 billion, up by 51.16% as compared with the end of the previous year and a workforce of 272 employees. The total size of the asset management business of CMFM (including public funds, social security funds and corporate annuity funds of fund firms, as well as the special account business of fund firms and their subsidiaries) amounted to RMB866.3 billion, representing an increase of 103.50% as compared with the previous year. In 2015, CMFM realised net profit of RMB548 million, representing an increase of 128.33% as compared with the previous year.

## 5.10.10 CIGNA & CMB Life Insurance

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

As at 31 December 2015, CIGNA & CMB Life Insurance had a registered capital of RMB1.45 billion and a workforce of 2,288 employees, total assets of RMB18.164 billion, representing an increase of 25.72% as compared with the end of the previous year, and net assets of RMB2.756 billion, representing an increase of 14.40% as compared with the end of the previous year. In 2015, CIGNA & CMB Life Insurance realised insurance income of RMB7.847 billion, representing an increase of 47.92% as compared with the previous year, and net profit of RMB292 million, representing an increase of 33.33% as compared with the previous year.

# 5.11 Risk Management

The Company, through transforming itself into an asset-light bank, stepped up the construction of a risk management system focusing on risk-adjusted value creation under the principles of "Comprehensive, Professional, Independent and Balanced Management". The Risk and Compliance Management Committee of the Head Office is the supreme authority of the Company in relation to risk management. The Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies that align with the risk appetite, strategies, policies and authorisations approved by the Board.

In 2015, against the background of complicated and volatile economic environment at home and abroad and the increasing risks in bank operations, the Company continued to improve its overall risk management system and proactively overcome and prevent various risks. For further details of risk management, please also refer to note 54 to the financial statements.

## 5.11.1 Credit risk management

Credit risks refer to risks arising from failure of the borrowers or the counterparties to fulfill their obligations under the agreed terms. Credit risks of the Company mainly stem from credit business, investment business, financing business and other businesses on and off balance sheet. The Company endeavors to formulate a credit risk management framework with independent functions, balanced and checked risks and three dedicated defense lines and implements the bank-wide policies and processes regarding credit risk identification, measurement, monitoring and management to maintain a balance among risk, capital and profit of the Company.

Based on different risk profile and authorisation system, the Company conducts risk reviews for credit business at different authorisation levels. The decision-making entities include: the Risk and Compliance Management Committee, the Loan Approval Committee and the Special Loan Approval Committee of the Head Office, as well as the Risk Control Committee and the Special Loan Approval Committee of our branches. The Company developed and introduced advanced risk quantifiable modeling tools and a risk management system for business origination, due diligence, review and approval of credit, loan disbursement and post-loan management to ensure that the risk management procedures were effectively implemented. In accordance with regulatory requirements, based on factors like borrowers' ability and willingness to repay, guarantors' credit profile, collaterals' conditions and overdue period, and with the employment of the 5-category classification, the Company divided credit assets into different categories under an internal 10-category classification system. The classification of a credit asset may be initiated by a relationship manager or a risk control officer and then reviewed by credit risk management departments of the Head Office and our branches according to their respective authorisation.

In 2015, under the tough internal and external conditions resulting from the combined adverse impact of the four distinctive periods of the Chinese economy, namely "dealing simultaneously with the slowdown in economic growth, making difficult structural adjustments, absorbing the effects of the previous economic stimulus policies, and exploring new policies", the Company accelerated transformation of risk management by adjusting asset structure, supporting strategic businesses and strengthening management fundamentals in accordance with the guiding philosophy of "once-and-for-all solution, guarantee the targets for asset quality and build a first-class risk management bank", thereby effectively preventing relevant risks.

Firstly, the Company continued to improve the comprehensive risk management system and the centralized risk management mechanism. The Company established the working rules for the Risk and Compliance Management Committee of the Head Office of CMB to regulate the existing comprehensive risk and compliance management activities; improved the identification, assessment and management mechanism for material risks of CMB to strengthen the centralised management of authorisation and risks for investment banking, asset management and agency services; streamlined a variety of emerging financing businesses and included them into the unified risk management system, thereby laying a solid foundation for the healthy and sustainable development of our business.

Secondly, the Company optimized asset portfolio allocation, and actively adjusted the asset structure. The Company aggressively developed low-capital-consumption asset business, such as personal housing mortgage and credit card businesses. In relation to corporate credit loans, the Company focused on structural adjustment by strictly enforcing admittance standards and continuous optimisation of asset structure in key areas: enforced the control list system for overcapacity industries to further reduce the risk loans; applied exposure limits on real estate industries and controlled loans for shantytown renovation, extended reasonable support to asset investment of the Bank; and controlled total credit facilities extended to government financing platforms to facilitate efficient use of credit facilities within such limits.

Thirdly, the Company tightened monitoring and control of asset quality, deepened risk warning, examination and supervision, reduced or withdrew risky assets in key areas; enhanced examination on new non-performing loans to minimise occurrence of non-performing loans. The Company tightened monitoring and management of overdue loans by a establishing screening and tracking mechanism for overdue loans; improved the three-layered pre-warning mechanism involving the Head Office, branches and sub-branches, perfected the risk pre-warning organization with clear division of responsibilities, and established a dynamic risk screening, rating, reduction and withdrawal mechanism; enforced risk screening by deepening risk screening on more than ten portfolios, namely corporate customers with significant balance, real estate financing, guarantee companies, second-level branches, private financing, income-prepaid financial collateral business so as to proactively prevent and control risks; firmly reduced and withdrew risky assets in seven areas, namely overcapacity industries, customers with small enterprise risk, private guarantee companies, customers with high group risks, customers with general risk pre-warning, risk guarantee circle and micro-finance loans; strengthened continuous review of new non-performing loans throughout the whole process, sought accountability for the non-performing loans granted to customers who were granted loans for the first time to avoid occurrence of non-performing loans.

Fourthly, the Company introduced innovative approaches for disposal of non-performing loans so as to dispose non-performing loans aggressively through different means. The Company had explored quasi-asset securitisation disposal of non-performing loans, strengthened recovery of cash, improved the approval system and process for restructuring-specific loans, and accelerated the restructuring of risky customers while maintaining the sound development of restructuring-specific loan business. As a result, a variety of measures were taken to mitigate the risk of non-performing assets.

Fifthly, the Company strengthened management and comprehensively fortified the three defense lines. To strengthen the first defense line, the Company streamlined the procedures, specified the duties and responsibilities of key roles in asset business, specified the standards for discharging duties and the risk management responsibilities and continued to enforce stringent requirements for qualifications of customer relationship managers. To create a strong second defense line, the Company continued to improve regulations and systems in order to provide coverage for the whole business, and optimised the business process; and continued to improve the risk manager team, and improved the professional skills and overall quality of the risk management team. In order to give full play to the supervision, assessment and value -added functions of internal audit of the third defense line, the Company continued to carry out inspection of on-site audit, further increased efforts on off-site audit and strengthened audit rectification and accountability, thereby promoting the sustained and healthy development of operation and management activities.

Sixthly, the Company steadily increased application of quantitative risk management tools. The Company had completed development and optimization of a number of models, including the pre-warning model which are applied in the routine risk management for improving the effectiveness of risk monitoring and early warning.

During the reporting period, the Company recorded an increase in non-performing loans as a result of the adverse impact from economic downturns at home and abroad. Thanks to the comprehensive countermeasures including accelerated collection, writing off and transfer of non-performing loans, the risk of further decline in asset quality had been effectively controlled.

## 5.11.2 Country risk management

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

The Company incorporates country risk management into its overall risk management system, dynamically monitors the change in its country risk profile in accordance with relevant regulatory requirements, sets limit on its country risk based on the rating results from international rating agencies, and evaluates its country risk and makes provisions on a quarterly basis. As at the end of 2015, the assets of the Company exposed to the country risk remained insignificant, this indicated low country risk ratings. Moreover, we have made adequate provision for country risk according to the regulatory requirements. As a result, country risk will not have material effect on our operations.

## 5.11.3 Market risk management

Market risk is the risk that the Company may suffer from loss as the fair value or future cash flows of the Company's financial instruments may fluctuate due to changes in foreign exchange rate, interest rate, commodity price, stock price and other observable market factors. The interest rate and foreign exchange rate are the two major market risk factors relevant to the Company. The Company is exposed to market risk through the financial instruments on the trading book and banking book. The financial instruments on the trading book are held for trading purpose or for the purpose of hedging the risks arising from the trading book position, and these financial instruments are traded in active market. The financial instruments on the banking book are assets and liabilities held by the Company 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 Company's on-balance sheet and off-balance sheet exposures, and have relative stable market value.

1. Interest rate risk

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

*(1) Trading book*

The Company has set up its market risk governance framework for trading book, covering interest rate risk, foreign exchange risk and commodity price risk. The Company's market risk governance framework for trading book specifies the duties, division of responsibilities and reporting lines of the Board of Directors, senior management, special committees and bank-related departments in the interest rate risk management of the trading book, ensuring the effectiveness of interest rate risk management of trading book. The market risk management department under the Bank's entire risk management office is responsible for execution of the management of interest rate risk under the trading book.

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

In 2015, the Company continued to enhance the trading book market risk management framework based on existing practice, and optimised the approaches, processes and tools for the measurement and monitoring of market risk.

The Company uses quantitative indicators, including volume indicators, market risk value indicators (VaR, covering various interest rate risk factors relating to trading book business) interest rate stress testing loss indicators, interest rate sensitivity indicators and accumulative loss indicators (covering various risk factors relating to trading book), to manage the interest rate risk of trading book. The measures for management of interest rate risk include setting the indicators for business authorisation and risk limits, daily monitoring and ongoing reporting. Specifically, VaR includes general VaR and stress VaR, which are both calculated using the historical simulation model.

In 2015, RMB market rates continued a downward trend, and the yields of various RMB-denominated bonds fell back to their historically low levels, leading to an evident "bull market". The Company conducted a comprehensive research and timely track on macro economy, monetary policy and market conditions, and formulated corresponding trading strategy. All interest rate risk indicators under the trading book were under good control.

*(2) Banking book*

The Company has established the governance and management framework for banking book in accordance with the interest rate risk management policy, which specifies the duties, division of responsibilities and reporting lines of the Board of Directors, senior management, special committees, and bank-related departments in the interest rate risk management of the banking book, ensuring the effectiveness of interest rate risk management. The interest rate risk associated with banking book of the Company is subject to centralised management by the Asset and Liability Management Department.

The Company has primarily adopted scenario simulation analysis, re-pricing gap analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. By convening regular meetings for analysis of assets and liabilities and through its established reporting framework, the Company analyses the causes of interest rate risk under the banking book, puts forward management suggestions and implements management measures.

In 2015, the Company closely monitored the change of the external interest rate environment and conducted rolling forecast for future movements in interest rates. In addition, the Company also strengthened its monitoring and analysis of NII fluctuation, and deepened its analysis of NII progress and anticipation difference. Based on the above-mentioned macro prediction and refined internal management, the Company proactively put forward the proposal on optimisation of assets and liabilities, so as to ensure that the overall interest rate risk level remains anchored to the management target and to safeguard the stable operation of NII.

In 2015, PBOC cut RMB benchmark deposit and lending rate for a total of five times. Specifically, the one-year benchmark deposit rate was cut by a total of 125 basis points, and the one-year benchmark lending rate was cut by 125 basis points accordingly. In addition, deposit rate cap was fully liberalised. In order to reduce the negative impact brought about by interest rate cuts and liberalisation of deposit rate cap, the Company proactively took countermeasures to integrate interest rate risk management with FTP management in an organic manner, and continued to make adjustments to duration of loans. Based on the analysis of interest rate sensitivity and customers' price behaviour, the Company improved differentiated pricing for deposits as well as pricing sensitivity and relevance, and exercised reasonable control over high-cost deposits including structured deposit, so as to maintain a comparative advantage in cost of debts. Such countermeasures have made a total of positive contribution of approximately RMB4.5 billion to NII. In future, the Company will continue to take various measures to enhance its management capabilities of interest rate risks associated with bank accounts in terms of system, process and assessment, with a view to achieve steady growth in net interest income and economic value.

2. Exchange rate risk management

Exchange rate risk arises from the holding of assets, liabilities and equity items denominated in foreign currencies, foreign currencies and foreign currency derivative positions which may expose banks to potential losses in their gross profit in the event of unfavourable movement in exchange rate. The Company's functional currency is RMB. The majority of assets and liabilities of the Company are denominated in RMB and the rest mainly in USD and HKD. Under the principle of separating the formulation, implementation and monitoring functions of exchange rate risk management policies, the Company has established its exchange rate risk management governance framework, specifying the roles, duties and reporting lines of the Board of Directors, the Board of Supervisors, the senior management, special committees and relevant departments in exchange rate risk management. The Company's cautious attitude towards exchange rate risk, meaning in principle the Company does not bear risks voluntarily, is more appropriate for the current development stage of the Company. The current exchange rate risk management policies and systems of the Company are basically in line with relevant regulatory requirements and its own management requirements.

After the IMF announced admission of RMB to SDR in December 2015, China announced the index for RMB-related exchange rates, and it will expedite the de-pegging of RMB to USD to gradually establish the RMB exchange rate regime which is determined primarily with reference to a basket of currencies, allowing more transparency to enhance the liquidity and stability of RMB in future. Against the backdrop of interest rate hikes by the US Federal Reserve and due to the differences between China and the United States in economic development trend, USD significantly strengthened at the end of the year, and USD appreciation against RMB was even accelerated as a result of faster capital outflow in the fourth quarter. In the context of the currently relaxed exchange rates announced by the central bank, in the absence of intervention from the central bank, it is probable that the RMB exchange rates will remain at low levels.

*(1) Trading book*

The Company has established the market risk (including exchange rate risk) management structure and system of trading book to implement centralised management on exchange rate risk of trading book using quantitative indicators. The structure, procedure and method of exchange rate risk management of trading book are in line with those of interest risk management of trading book.

The Company uses the quantitative indicators such as risk exposure indicator, market risk value indicator (VaR, including interest rate, exchange rate and commodity risk factors), the loss indicator for exchange rate scenario stress test, exchange rate sensibility indicator and accumulated loss indicator to control exchange rate risk. The measures for management of exchange rate risk include setting the indicators for business authorisation and risk limits, daily monitoring and ongoing reporting.

Since 11 August 2015, RMB depreciation deteriorated with increased volatility. To keep relevant risks under effective control, the Company reduced risk exposure to and lowered risk limit threshold of foreign exchange business while increasing efforts in tracking foreign exchange market trends to strengthen risk monitoring work, thereby exercising effective control over risk exposures of the Company's trading book to foreign exchange business. The foreign exchange services of its trading book maintained smooth operation and the indicators of its market risk achieved good performance since the Company adopted prudent trading strategies and implemented strict risk management policies.

*(2) Banking book*

The exchange rate risk management of banking book of the Company is coordinated by the Head Office. The Asset and Liability Management Department under the Head Office as a treasurer of the Company is in charge of exchange rate risk management of banking book. The treasurer is responsible for managing exchange rate risk of banking book on a prudent basis in accordance with relevant regulatory requirements, and conducting the centralised exchange rate management of banking book through limit management, budget control and other approaches.

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

The Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, and other methods to measure and analyse the exchange rate risk of banking book. The Company regularly measures and analyses changes in its foreign exchange exposure of banking book and monitors and reports exchange rate risk on a monthly basis under its limit framework. Based on the trend of exchange rate movements, the Company adjusts its foreign exchange exposure accordingly to mitigate the relevant exchange rate risk of its banking book. In 2015, the Company further optimised the measurement of its exchange rate risk under banking book which provides scientific reference standards for appropriately making management decisions. In addition, the Company further enhanced the monitoring of its exchange rate risk under banking book and the approval and management of risk limits, so as to keep its risk exposure at a reasonable level.

## 5.11.4 Operational risk management

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

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company further implemented the risk assessment, monitoring and alert policy, improved risk management model and strengthened prevention and control of risks in respect of key operational risks, namely the "operational risks associated with emerging finance business, credit business, manual intervention, Internet finance business, IT support, outsourcing and staff". Firstly, focusing on the strategic businesses and major businesses of the Bank, we carried out a comprehensive risk assessment, conducted a thorough and in-depth analysis of the current business conditions from various perspectives including organisational structure, personnel, risk management, rule-making, system building and peer comparison, and put forward corresponding management suggestions. Secondly, we made in-depth analysis of typical cases, carried out special risk assessment and event-triggering assessment, and cultivated bank-wide actions to enhance early warning and prevention by measures such as issuing risk alert and arranging risk examination. Thirdly, we participated in evaluation of various new products and new businesses, and expressed our view with respect to operational risk management and full-process management and control, thus further improved the effectiveness of operational risk management. Fourthly, we strengthened control over manual intervention business, specified the management requirements for manual intervention business, organised a comprehensive review on manual intervention business so as to analyse existing problems and management difficulties, and put forward corresponding managerial suggestions.

## 5.11.5 Liquidity risk management

Liquidity risk is the risk that the Company cannot satisfy its customers by repaying deposits that fall due, granting new loans or providing financing, or that the Company cannot satisfy these requirements at a normal cost.

Under the principle of separating the formulation, implementation and monitoring functions of liquidity risk management policies, the Company has established a liquidity risk management governance structure, defined the roles, duties and reporting lines of the Board of Directors, the Board of Supervisors, the senior management, special committees and related departments in liquidity risk management, so as to enhance the effectiveness of liquidity risk management. The Company's cautious attitude towards liquidity risk is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company are basically in line with regulatory requirements and its own management requirements.

The Company's liquidity risk management is conducted under a model that requires overall coordination by the Head Office with each of the branches acting in concert. The Asset and Liability Management Department of the Head Office as a treasurer of the Company is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis in compliance with relevant regulatory requirements, and conducting centralised liquidity management through limit management, budget control, active liability as well as internal funds transfer pricing, etc.

The Company measures, monitors and identifies liquidity risk for short-term reserves and duration structure and emergency purpose. It monitors the limit indicators closely at fixed intervals. Stress tests are regularly used to find out whether the Company is able to meet liquidity requirements under extreme circumstances. In addition, the Company has put in place liquidity contingency plans and organised regular liquidity contingency drillings to guard against any liquidity crisis.

In the first half of 2015, market liquidity was comparably easing from an overall perspective, and only appeared to be tight periodically due to seasonal factors such as the Chinese New Year. Despite the continuing decrease of funds outstanding for foreign exchange, institutional participants in the market maintained a relatively optimistic anticipation for stable money supply in the near future owing to the reduction in deposit reserve ratio and interest rate cuts by the central bank as well as the lowered interest rate for reverse repurchase in the open market, therefore there was abundant liquidity in the interbank market, and the Company was only exposed to moderate-to-low level of liquidity risk. In the second half of the year, the central bank increased the use of monetary policies. While maintaining its strategy of deposit reserve ratio reduction and interest rate cuts implemented in the first half of the year, the central bank reformed the appraisal system of deposit reserve and established interest rate corridor to induce the market interest rate to lower levels in the medium and long term. The overall market liquidity was neutral and tended to be easing. As at the end of the year, affected by the maturity of MLF, deposit deviation assessment and seasonal factors, market liquidity experienced slight fluctuation. The Company has made appropriate liquidity arrangement in advance in order to safeguard the overall steady operation of the Bank. As at the end of December 2015, the Company's liquidity coverage ratio was 119.71%[1], representing 49.71 percentage points higher than the minimum requirement of CBRC.

[1] Liquidity coverage ratio is an external regulatory indicator - the legal person calibre

The Company has adopted various measures to tackle liquidity risk during the year, thereby ensuring a sound liquidity position across the Bank. Firstly, the Company implemented the FTP mechanism in a flexible manner as guidelines to the branches as regard to the term and amount of liabilities and maintain the balance between the source and use of funds. Secondly, the Company increased efforts to improve the maturity mismatch management of assets and liabilities of standalone business lines, such as our bills business. Thirdly, the Company flexibly conducted short-, medium- and long-term active liability-taking by adopting various measures including issuance of negotiable interbank certificates of deposits and certificates of large-amount deposits, carried out financing activities by following monetary policies and employing instruments introduced by the central bank, and took into account liquidity and cost of fund as well, with a view to secure the source of funds of the Company. Fourthly, the Company steadily promoted the securitisation of assets, and launched asset securitised products of RMB23.02 billion in 2015. Fifthly, the Company laid down investment and financing strategies based on its dynamic future cash flow gap forecast through adoption of forward-looking active risk management, in an attempt to reduce costs and improve profitability.

## 5.11.6 Reputational risk management

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

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

During the reporting period, relying on its systematic reputational risk management, the Company strengthened its efforts in building a sound reputational risk management team, and established a more effective multi-media information disclosure mechanism to offer proper guidance to public opinion. The Company also improved reputational risk front-line management and early-warning mechanisms and accelerated its response to public sentiments so as to effectively prevent reputational loss. In addition, the Company conducted periodic analysis of data in relation to public sentiments to improve both services and products.

## 5.11.7 Compliance risk management

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

During the reporting period, the Company proactively adapted to the adjustments in regulatory polices and addressed the significant changes in financial situation and risk control. Focusing its efforts on strategic transformation, forging "Asset-light Banking" and responding to changes in business process and management system, the Company formulated and implemented the guiding opinion regarding risk management-oriented internal control and compliance work, assigned the compliance management targets and requirements to the whole bank, strengthened the understanding of polices and the circulation and delivery of new regulations, complied with regulatory policies and identified business opportunities; provided professional legal compliance service, supported value innovation and promoted the concerted development of "One Body with Two Wings". The Company consolidated its fundamentals of inherent internal control and compliance management, optimised system building and improved policies and systems in relation to internal control and compliance management so as to strictly prevent and effectively relieve the risks associated with internal control and compliance. The Company also proactively conducted compliance training activities with diversified contents using flexible methods including "learning regulations to keep bottom line" and cultural promotion activities for honest duty performance, steadily coordinated the chief executives and compliance officer of each branch and sub-branch to attend compliance courses, so as to continue to create good compliance environment. The Company promoted the overall management of supervision, examination and troubleshooting, and strengthened the management of conduct of employees and the misconduct points program, thus striving to formulate an integrated internal control and compliance management system.

## 5.11.8 Anti-money laundering management

The Company takes anti-money laundering as its social responsibility and legal obligation and attaches great importance to anti-money laundering. The Company has established a professional anti-money laundering team to carry out anti-money laundering compliance management, anti-money laundering name-list verification and the monitoring of large-amount transactions and suspicious transactions, and put in place a relatively complete anti-money laundering monitoring system.

In 2015, the Company further enhanced its anti-money laundering rules in response to the changes in regulatory policies and the operational and management systems of the Company, initiated a comprehensive overhaul of its anti-money laundering management measures, and formulated the anti-money laundering policy of the Group and assessment guidelines in respect of money laundering risk. According to the changes of the monitoring procedures of anti-money laundering measures of the Company and the risk of money laundering, the Company further improved its anti-money laundering monitor system, adjusted suspicious transaction monitoring standard in a timely manner, and continued to promote the centralised monitoring and analysis work for suspicious transactions, so as to improve the effectiveness of anti-money laundering management.

# 5.12 Profit Appropriation

## 5.12.1 The profit appropriation plan for 2015

As stated in the audited financial statements of the Company for 2015, 10% of the profit after tax of RMB53.189 billion, equivalent to RMB5.319 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the incremental risk assets, equivalent to RMB10.720 billion, was appropriated to the general reserve.

Based on the then total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposes to declare a cash dividend of RMB6.90 (tax included) for every ten Shares to all shareholders of the Company, 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 general meeting (inclusive of the day of the general meeting). The retained profit will be carried forward to the next year. In 2015, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2015 Annual General Meeting of the Company.

## 5.12.2 Profit appropriation for the last three years:

| Year | Number of bonus shares for every ten shares held (No. of shares) | Cash dividend for every ten shares held (RMB, inclusive of tax) | Number of shares issued on capitalisation of surplus reserve for every ten shares held (No. of shares) | Total cash dividends (inclusive of tax, in millions of RMB) | Net profit attributable to shareholders in the consolidated financial statements for the year (in millions of RMB) | Proportion of cash bonus to net profit attributable to shareholders in the consolidated financial statements (%) |
|---|---|---|---|---|---|---|
| 2013 | – | 6.20 | – | 15,636 | 51,743 | 30.22 |
| 2014 | – | 6.70 | – | 16,897 | 55,911 | 30.22 |
| 2015[Note] | – | 6.90 | – | 17,402 | 57,696 | 30.16 |

Note: The proposal of profit appropriation for 2015 is subject to consideration and approval at the 2015 Annual General Meeting of the Company.

## 5.12.3 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. (revised in 2014) (the "Articles of Association"), the profit appropriation policies 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 each year in principle shall not be less than 30% of the net profit after taxation audited in accordance with 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 authorised 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 dividend appropriation plan 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 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 2014 was implemented in strict accordance with the relevant provisions of the Articles of Association. It was considered and approved by the 30th meeting of the Ninth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2014 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 2015 will also be implemented in strict accordance with the relevant provisions of the Articles of Association. It will be considered and approved by the 45th meeting of the Ninth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2015 Annual General Meeting. The independent directors of the Company have expressed their independent opinions on the profit appropriation plans for 2014 and 2015 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.

## 5.13 Social Responsibility

Adhering to the principle of "Gain from society and contribute to society", the Company is always active in fulfilling its social responsibilities on poverty alleviation, green loans, charity activities and support to SMEs. The total amount of the charitable donations and other donations contributed by the Company and its employees for the reporting period was RMB36.4658 million, representing a social contribution value of RMB8.57 per share at the end of the period. For details of the Company's fulfilment of its social responsibilities, please refer to the "Corporate Social Responsibility Report of China Merchants Bank Co., Ltd. for 2015".

## 5.14 Key Relationship with Stakeholders and Environmental Policies and Performance

The account of the Company's key relationships with its key stakeholders and discussion on the Group's environmental policies and performance are included in the Social Responsibility Report of China Merchants Bank Co., Ltd. for 2015, and the discussion forms part of this Report. Names of directors and supervisors (including resigned directors and supervisors) are more particularly set out in Chapter VIII which also forms part of this Report.

## 5.15 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.

## 5.16 Permitted Indemnity Provision

The Company has maintained appropriate insurance coverage for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

## 5.17 Compliance with the Relevant Laws and Regulations

During 2015, so far as the Board is aware, 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.

By order of the Board of Directors
Li Jianhong
*Chairman of the Board of Directors*
30 March 2016

# Important Events

## 6.1 Principal business activities

The Company is engaged in banking and related financial services.

## 6.2 Financial highlights

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

## 6.3 Reserve

For details of changes in the Company's reserves, please refer to its Statement of Changes in Equity.

## 6.4 Fixed assets

Changes in fixed assets of the Company as at 31 December 2015 are set out in Note 25 to the financial statements in this annual report.

# 6.5 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.

# 6.6 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.

# 6.7 Retirement and welfare

Details about retirement and welfare provided by the Company to its employees are set out in Note 37 to the financial statements in this annual report.

# 6.8 Principal customers

As at the end of the reporting period, the operating income of the top 5 customers of the Company did not exceed 30% of the total operating income of the Company. As far as the Company is aware, none of the directors, their close associates or any shareholders (who to the best knowledge of the directors own more than 5% of the issued shares of the Company) has any interests in the aforesaid top 5 customers.

## 6.9 Interests and short positions of directors, supervisors and chief executives under Hong Kong laws and regulations

As at 31 December 2015, 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 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 all the issued shares (%) |
|---|---|---|---|---|---|---|---|
| Jin Qingjun | Supervisor | A Share | Long position | Beneficial owner | 65,800 | 0.00032 | 0.00026 |

## 6.10 Directors' interests in the businesses competing with those of the Company

As 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.

# 6.11 Financial, business and kinship relations among directors, supervisors and senior management

Save as disclosed herein, the Company is not aware that the directors, supervisors and senior management of the Company have any relations between each other with respect to financial, business, kinship or other material or connected relations.

# 6.12 Contractual rights and service contracts of directors and supervisors

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).

# 6.13 Disciplinary actions imposed on the Company, directors, supervisors, senior management, controlling shareholders, de facto controllers or offerors

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 discipline inspection authorities. None of them had been referred or handed over to judicial authorities or prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor had they been prohibited from engagement in the securities markets, determined as unqualified, or been publicly censured by any stock exchange. The Company has not been penalised by other regulatory bodies which have significant impact on the business of the Company.

As at the end of the reporting period, given that the Change in Shareholding (as defined in section 7.4 of this report) has not been completed, the Company did not have any controlling shareholder or de facto controller.

## 6.14 Explanation about the integrity profile of the Company, its controlling shareholder and de facto controllers

So far as the Company is aware, the Company had not failed in performing any valid court verdict and fulfilling any significant payment obligations that fell due during the reporting period.

As at the end of the reporting period, given that the Change in Shareholding (as defined in section 7.4 of this report) has not been completed, the Company did not have any controlling shareholder or de facto controller.

## 6.15 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. (hereinafter referred to as "China Merchants Group"), China Merchants Steam Navigation Company Ltd. and China Ocean Shipping (Group) Company 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. Should they participate in the subscription of the rights shares, they would neither transfer nor entrust others to manage the allocated shares within five years from the delivery of such shares, nor would they seek for a repurchase by the Company of the allocated shares held by them. 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 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 website of the Company (www.cmbchina. com).

In order to promote the sustainable, steady and healthy development of the capital market, China Merchants Group and its subsidiaries have undertaken that during periods of exceptional volatility in the stock market(s), they would not dispose of their shareholdings in the Company and instead, they would increase their shareholdings in the Company at appropriate times. For further details, please refer to the announcement of the Company dated 10 July 2015 published on our website.

As far as the Company is aware, as at the date of the report, the above shareholders had not violated the aforesaid undertakings.

# 6.16 Significant connected transactions

## 6.16.1 Overview of connected transactions

All the connected transactions of the Company have been conducted on normal commercial principles, and on terms which are fair and reasonable and in the interest of the Company and its shareholders as a whole. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the transactions between the Company and China Merchants Group Ltd. and its member companies, Anbang Insurance Group and its member companies constituted non-exempt continuing connected transactions within the meanings of Hong Kong Listing Rules, and shall comply with the requirements of non-exempt continuing connected transactions set by the Hong Kong Stock Exchange.

## 6.16.2 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"), CM Securities and its associates (hereinafter referred to as "CM Securities Group") and Anbang Insurance Group and its associates (hereinafter referred to as "Anbang Insurance Group"), respectively.

On 26 August 2014, with the approval from the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with CMFM Group for the year of 2015 and 2016 would be RMB3 billion. On 28 April 2015, with the approval from the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with CM Securities Group for the year of 2015, 2016 and 2017 would be RMB500 million. On 16 June 2015, with the approval of the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with Anbang Insurance Group for the year of 2015, 2016 and 2017 would be RMB1.2 billion, respectively. Further details were disclosed in the Announcements on Continuing Connected Transactions issued by the Company on 26 August 2014, 28 April 2015 and 16 June 2015, respectively.

CMFM Group

The fund distribution agency services between the Company and CMFM Group constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

The Company and CM Securities held 55% and 45% of the equity interest in CMFM respectively. CMFM is a connected subsidiary of the Company under the Hong Kong Listing Rules.

On 26 August 2014, the Company entered into a Service Cooperation Agreement with CMFM for a term commencing on 1 January 2015 and expiring on 31 December 2016. The Agreement was entered into on normal commercial principles after an arm's length negotiation. The service fees payable by CMFM Group will be calculated at the rates specified in the fund offering documents and/or the offering prospectuses and shall be settled to the Company under the Agreement.

The annual cap for the continuing connected transactions between the Company and CMFM Group for 2015 was RMB3 billion, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements under the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2015, the amount of the continuing connected transactions between the Company and CMFM Group was RMB1,508.50 million.

### CM Securities Group

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

As at the end of the reporting period, China Merchants Steam Navigation Company Ltd. was a substantial shareholder of the Company. As China Merchants Group held 100% equity interest in China Merchants Steam Navigation Company Ltd., it indirectly held 29.97% of equity interest in the Company (including those deemed to be held by it through affiliated companies). As China Merchants Group also holds 50.86% equity interest in CM Securities, pursuant to the Hong Kong Listing Rules, transactions between the Company and its subsidiaries with CM Securities Group constitute connected transactions of the Company.

On 28 April 2015, the Company entered into a Service Cooperation Agreement with CM Securities for a term commencing on 1 January 2015 and expiring on 31 December 2017. The Agreement was entered into on normal commercial terms after an arm's length negotiation. The service fees payable by CM Securities Group to the Company should be determined in accordance with the following pricing policies:

(1) where there are State prescribed prices, to follow these prices; or

(2) where there are no State prescribed prices, but there are applicable State guided prices, to follow the State guided prices; or

(3) where there are no State prescribed prices or State guided prices, to follow the market fee rates for ordinary business transactions agreed between the parties on arm's length negotiations.

The annual cap for the continuing connected transactions between the Company and CM Securities Group for 2015 was RMB500 million, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

As at 31 December 2015, the amount of the continuing connected transactions between the Company and CM Securities Group was RMB462.99 million.

### Anbang Insurance Group

The insurance agency sales services between the Company and Anbang Insurance Group constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

Anbang Property & Casualty Insurance Company Ltd. is one of the Company's substantial shareholders. As at the end of the reporting period, Anbang Insurance Group Co., Ltd. held 97.56% of the equity interest in Anbang Property & Casualty Insurance Company Ltd., and indirectly held 10.72% equity interest in the Company. According to the Hong Kong Listing Rules, transactions between the Company and its subsidiaries and Anbang Insurance Group constitute connected transactions of the Company.

On 16 June 2015, the Company entered into a Service Cooperation Agreement with Anbang Insurance for a term commencing on 1 January 2015 and expiring on 31 December 2017. The Agreement was entered into on normal commercial terms after an arm's length negotiations. The service fees payable by Anbang Insurance Group to the Company should be determined in accordance with the following pricing policies:

(1) where there are State prescribed prices, to follow these prices; or

(2) where there are no State prescribed prices but there are applicable State guided prices, to follow the State guided prices; or

(3) where there are no State prescribed prices or State guided prices, to follow the market fee rates for ordinary business transactions agreed between the parties on arm's length negotiations.

The annual cap for the continuing connected transactions between the Company and Anbang Insurance Group for 2015 was RMB1.2 billion, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would be subject only to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

As at 31 December 2015, the amount of the continuing connected transactions between the Company and Anbang Insurance Group was RMB906.84 million.

### 6.16.3 Confirmation from the Independent Non-executive Directors and Auditors

The independent non-executive directors of the Company had reviewed the above-mentioned non-exempt continuing connected transactions between the Company and each of CMFM Group, CM Securities Group and Anbang Insurance Group and confirmed that:

(1) the transactions were conducted 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 which were no more favourable than those available to independent third parties; and

(4) the transactions were conducted in accordance with the terms of relevant agreements.

Furthermore, the Company has engaged KPMG Certified Public Accountants 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 has confirmed the findings, conclusions and the unqualified letter issued by KPMG Certified Public Accountants in respect of the aforesaid 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 SEHK.

### 6.16.4 Major transactions with related parties

The Company's major transactions with related parties are set out in Note 56 to the financial statements. These transactions entered into with related parties were in the ordinary course of its business including lending, investment, deposit-taking, securities trading, agency services, custody and other trust services and off-balance sheet transactions. These transactions were entered into by the Company on normal commercial terms in the ordinary and usual course of business, and those which constituted connected transactions under the Hong Kong Listing Rules were in compliance with the applicable requirements of the Hong Kong Listing Rules.

## 6.17 Material litigations and arbitrations

So far as the Company is aware, as at 31 December 2015, the Company was involved in the following litigation cases in the ordinary course of business: the number of pending litigation and arbitration cases in which the Company was involved totalled 19,314 with a total amount of principal and interest of approximately RMB52.497 billion. Of which, there were a total of 176 pending litigation and arbitration cases against the Company as at 31 December 2015, with a total amount of approximately RMB1,001.76 million. There were 24 pending cases with a principal amount exceeding RMB100,000,000, involving a total amount of approximately RMB5,175 million. Although there was a rise in the number and amount of cases where the Company took legal actions to recourse against the debtors due to economic downturn, none of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

# 6.18 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 the Bank.

## Significant entrustments in respect of fund and asset management

During the reporting period, there was no significant entrustment in respect of fund and asset management.

## 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 PBOC and the CBRC, there was no other significant discloseable guarantee.

**China Merchants Bank Co., Ltd.**
**Explanatory notes and independent opinions of the independent non-executive directors towards the Company's guarantees**

In accordance with CSRC Approval [2003] No.56 of China Securities Regulatory Commission and the relevant provisions of Shanghai Stock Exchange, the independent non-executive directors of China Merchants Bank Co., Ltd. carried out a due diligence review of the Company's guarantees for 2015 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of China Merchants Bank Co., Ltd. was approved by the PBOC and the CBRC, and it was carried out in the ordinary course of business of the Banks as a conventional business. As at 31 December 2015, the balance of the Company's guarantee business was RMB236.077 billion, accounting for 67.06% of the Company's net assets.

The Company emphasises 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, the Company has enhanced risk monitoring and safeguarded this business through management means such as on-site and off-site checks. During the reporting period, the Company's guarantee business was in normal operation and there were no non-compliant guarantees.

# 6.19 Significant event in respect of fund entrusting

During the reporting period, there was no event in respect of fund entrusting beyond our normal business.

# 6.20 Implementation of the H-Share appreciation rights incentive scheme during the reporting period

For details about the implementation of the Company's H-Share Appreciation Rights Incentive Scheme, please refer to Chapter VIII.

# 6.21 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 connected transactions not entered into on an arm's length basis. KPMG Huazhen Certified Public Accountants, being the auditor of the Company, has issued a special audit opinion in this regard.

# 6.22 Appointment of accounting firms and financial advisors

According to the resolutions passed at the 2014 Annual General Meeting, the Company appointed KPMG Huazhen Certified Public Accountants as the auditor for domestic business for the year 2015 and KPMG Certified Public Accountants as the auditor for overseas business for the year 2015. Those two Certified Public Accountants have been engaged as auditors of the Company since 2002.

The financial statements of the Group for the year 2015 prepared under the PRC Generally Accepted Accounting Principles and the internal control of the Group as at the year end of 2015 were audited by KPMG Huazhen Certified Public Accountants, and the financial statements for the year 2015 prepared under International Financial Reporting Standards were audited by KPMG Certified Public Accountants. The total audit fees amounted to approximately RMB22.35 million (including fees for the audit on the financial statements of our overseas branches and subsidiaries), among which the audit fees for internal control was approximately RMB1.60 million. The auditor's responsibility statements made by KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants about their responsibilities on the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively. Apart from the audit services, the non-audit service fee for the year paid by the Group to KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants was approximately RMB6.45 million.

During the reporting period, the Company engaged Altus Capital Limited (office address at 21 Wing Wo Street, Central, Hong Kong) as our independent financial adviser to the independent board committee and independent shareholders of the Company in respect of the Employee Stock Ownership Scheme of the Company (details of which are set out in Section 8.8 of this report), for which the Company paid a total consultancy fee of HK$210,000.

# 6.23 Changes in accounting policies

For details of changes in the accounting policies, please refer to note 2 to the financial statements for the year.

## 6.24 Review of annual results

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants, our external auditors, 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 respectively. The Audit Committee under the Board of Directors of the Company has reviewed the financial results and financial statements of the Company for the year ended 31 December 2015.

## 6.25 Annual general meeting

For the convening of its 2015 Annual General Meeting, the Company will make further announcement.

## 6.26 Publication of annual report

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

The Company also prepared the 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.

# Changes in Shares and Information on Shareholders

## 7.1 Changes in shares of the Company during the reporting period

| | | 31 December 2014 | | Changes in the reporting period | 31 December 2015 | |
|---|---|---|---|---|---|---|
| | | Quantity (share) | Percentage (%) | Quantity(share) | Quantity (share) | Percentage (%) |
| I. | Shares subject to trading moratorium | – | – | – | – | – |
| II. | 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 | – | – | – | – | – |
| III. | 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 266,723 shareholders, including 37,967 holders of H Shares and 228,756 holders of A Shares. None of their shareholdings is subject to trading moratorium.

As at the close of the previous month (namely 29 February 2016) preceding the date for disclosure of the annual report, the Company had a total of 280,614 shareholders, including 37,910 holders of H Shares and 242,704 holders of A Shares. None of their shareholdings is subject to trading moratorium.

Based on the publicly available information and so far as the directors were aware, as at 31 December 2015, the Company had met the public float requirement of the Hong Kong Listing Rules.

# 7.2 Top ten shareholders and top ten shareholders whose shareholdings are not subject to trading moratorium

| Serial No. | Name of shareholder | Type of shareholder | Shares held at the end of the period (share) | Percentage of total share capital (%) | Type of shares | Changes in the reporting period (share) | Number of shares subject to trading moratorium (share) | Shares pledged or frozen (share) |
|---|---|---|---|---|---|---|---|---|
| 1 | HKSCC Nominees Ltd.[1] | / | 4,538,723,917 | 18.00 | H shares | 5,615,660 | – | – |
| 2 | China Merchants Steam Navigation Company Ltd. | State-owned legal person | 3,289,470,337 | 13.04 | A Shares not subject to trading moratorium | 127,046,014 | – | – |
| 3 | Anbang Property & Casualty Insurance Company Ltd. – traditional products | Domestic legal person | 2,704,596,216 | 10.72 | A Shares not subject to trading moratorium | – | – | – |
| 4 | China Ocean Shipping (Group) Company | State-owned legal person | 1,574,729,111 | 6.24 | A Shares not subject to trading moratorium | – | – | – |
| 5 | Shenzhen Yan Qing Investment and Development Company Ltd. | State-owned legal person | 1,258,542,349 | 4.99 | A Shares not subject to trading moratorium | 510,952,663 | – | – |
| 6 | Shenzhen Chu Yuan Investment and Development Company Ltd. | State-owned legal person | 944,013,171 | 3.74 | A Shares not subject to trading moratorium | 290,877,512 | – | – |
| 7 | China Merchants Finance Investment Holdings Co. Ltd. | State-owned legal person | 923,853,653 | 3.66 | A Shares not subject to trading moratorium | 657,356,174 | – | – |
| 8 | Guangzhou Maritime Transport (Group) Company Ltd. | State-owned legal person | 696,450,214 | 2.76 | A Shares not subject to trading moratorium | 27,801,047 | – | – |
| 9 | China Securities Finance Corporation Limited | Domestic legal person | 598,434,742 | 2.37 | A Shares not subject to trading moratorium | 454,267,958 | – | – |
| 10 | China Communications Construction Company Limited | State-owned legal person | 450,164,945 | 1.78 | A Shares not subject to trading moratorium | – | – | – |

Notes: (1) Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of the Company trading on the transaction platform of HKSCC Nominees Ltd.

(2) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Company Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., Shenzhen Chu Yuan Investment and Development Company Ltd. and China Merchants Finance Investment Holdings Co. Ltd. are subsidiaries of China Merchants Group Ltd. As at 31 December 2015, China Merchants Group Ltd. held an aggregate of 29.97% of the total issued shares of the Company through its subsidiaries and parties acting in concert with it. Guangzhou Maritime Transport (Group) Company Ltd. is a wholly-owned subsidiary of China Shipping (Group) Company through its subsidiaries and parties acting in concert with it. The former China Ocean Shipping (Group) Company and China Shipping (Group) Company were reorganised and merged into China COSCO Shipping Corporation Limited under the direction of the State Council. China COSCO Shipping Corporation Limited was established on 18 February 2016. Up to now, the relevant reorganisation is still in progress and the asset consolidation of the two companies has not been completed. Further announcement(s) will be made by the Company in accordance with the relevant requirements upon completion of such matters. The Company is not aware of any affiliated relationships among other shareholders.

(3) The above shareholders do not hold the shares of the Company through credit securities accounts.

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

As at 31 December 2015, as far as the Company is aware, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| 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 all issued shares (%) |
|---|---|---|---|---|---|---|---|
| China Merchants Group Ltd. | A | Long | Interest of controlled corporation | 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 Company Ltd. | A | Long | Beneficial owner | 3,289,470,337 | | | |
| | | Long | Interest of controlled corporation | 58,147,140 | 1 | | |
| | | | | 3,347,617,477 | | 16.23 | 13.27 |
| | 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 | 923,853,653 | | | |
| | | Long | Interest of controlled corporation | 2,426,079,282 | 1 | | |
| | | | | 3,349,932,935 | | 16.24 | 13.28 |
| 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 | 1 | | |
| | | Long | Interest of controlled corporation | 944,013,171 | 1 | | |
| | | | | 2,202,555,520 | | 10.68 | 8.73 |
| Anbang Property & Casualty Insurance Company Ltd. -traditional products | A | Long | Beneficial owner | 2,704,596,216 | | 13.11 | 10.72 |
| China Ocean Shipping (Group) Company | A | Long | Beneficial owner | 1,574,729,111 | | 7.63 | 6.24 |
| JPMorgan Chase & Co. | H | Long | Beneficial owner | 122,104,698 | | | |
| | | Long | Investment manager | 242,006,195 | | | |
| | | Long | Custodian | 139,743,375 | | | |
| | | | | 503,854,268 | 2 | 10.98 | 2.00 |
| | | Short | Beneficial owner | 44,962,101 | 2 | 0.97 | 0.18 |

| 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 all issued shares (%) |
|---|---|---|---|---|---|---|---|
| Pagoda Tree Investment Company Limited (中國華馨投資有限公司) | H | Long | Interest of controlled corporation | 477,903,500 | 3 | 10.41 | 1.89 |
| Boyuan Investment Company Limited | H | Long | Interest of controlled corporation | 477,903,500 | 3 | 10.41 | 1.89 |
| Guoxin International Investment Corporation Limited | H | Long | Interest of controlled corporation | 477,903,500 | 3 | 10.41 | 1.89 |
| Verise Holdings Company Limited | H | Long | Interest of controlled corporation | 477,903,500 | 3 | 10.41 | 1.89 |
| China Merchants Union (BVI) Limited | H | Long | Beneficial owner | 477,903,500 | 3 | 10.41 | 1.89 |
| BlackRock, Inc. | H | Long | Interest of controlled corporation | 269,818,362 | 4 | 5.88 | 1.07 |
| | | Short | Beneficial owner | 1,696,500 | 4 | 0.04 | 0.006 |

* As far as the Company is aware, the number of the shares as shown in the table above represents the interests and short positions of each substantial shareholder as at 31 December 2015. These figures may not have been reported in the declaration forms submitted by them because their updated interests are not reportable under the SFO.

Notes:

(1) China Merchants Group Ltd. was deemed to hold interests in a total of 6,752,746,952 A shares (long position) and 806,680,423 H Shares (long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(1.1) China Merchants Steam Navigation Company Ltd. held 3,289,470,337 A shares (long position) in the Company. China Merchants Steam Navigation Company Ltd. was a wholly-owned subsidiary of China Merchants Group Ltd..

(1.2) China Merchants Finance Investment Holdings Co., Ltd. held 923,853,653 A shares (long position) in the Company. China Merchants Finance Investment Holdings Co., Ltd. was owned as to 90% and 10% by China Merchants Group Ltd. and China Merchants Steam Navigation Company Ltd., referred to in (1.1) above, respectively.

(1.3) Best Winner Investment Limited held 58,147,140 A shares (long position) and 328,776,923 H Shares (long position) in the Company. Best Winner Investment Limited was an indirect wholly-owned subsidiary of China Merchants Steam Navigation Company Ltd..

(1.4) Shenzhen Yan Qing Investment and Development Company Ltd. held 1,258,542,349 A shares (long position) in the Company. Shenzhen Yan Qing Investment and Development Company Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and China Merchants Group Ltd. respectively.

(1.5) Shenzhen Chu Yuan Investment and Development Company Ltd. held 944,013,171 A shares (long position) in the Company. Shenzhen Chu Yuan Investment and Development Company Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and Shenzhen Yan Qing Investment and Development Company Ltd., referred to in (1.3) above, respectively.

(1.6) China Merchants Union (BVI) Limited held 477,903,500 H shares (long position) in the Company. China Merchants Union (BVI) Limited was held as to 50% by China Merchants Holdings (Hong Kong) Company Limited, which was held as to 10.55% and 89.45% by China Merchants Group Ltd. and China Merchants Steam Navigation Company Ltd., referred to in (1.1) above, respectively.

(1.7) China Merchants Zhi Yuan Zeng Chi Bao No.1 Collective Asset Management Plan (招商智遠增持寶1號集合資產管理計劃) and China Merchants Zhi Yuan Zeng Chi Bao No.2 Collective Asset Management Plan (招商智遠增持寶2號集合資產管理計劃) held 223,523,762 A shares (long position) in the Company. China Merchants Zhi Yuan Zeng Chi Bao No.1 Collective Asset Management Plan (招商智遠增持寶1號集合資產管理計劃) and China Merchants Zhi Yuan Zeng Chi Bao No.2 Collective Asset Management Plan (招商智遠增持寶2號集合資產管理計劃) are both under control by China Merchants Finance Investment Holdings Co., Ltd., referred to in (1.2) above.

(1.8) China Merchants Industry Development (Shenzhen) Limited held 55,196,540 A shares (long position) in the Company. China Merchants Industry Development (Shenzhen) Limited was a wholly owned subsidiary of China Merchants China Direct Investments Limited.China Merchants Group Ltd. indirectly controls 27.59% interest in China Merchants China Direct Investments Limited through China Merchants Finance Holdings Company Limited, its wholly owned subsidiary. On 23 December 2015, China Merchants Finance Investment Holdings Co. Ltd., a wholly owned subsidiary of China Merchants Group Ltd. issued a letter of undertaking that: China Merchants Finance Investment Holdings Co. Ltd. undertook to acquire the shares in China Merchants Bank held by China Merchants Industry Development (Shenzhen) Limited through Block Trade or other means permitted by laws provided that the latter gives at least 10 days prior notice in writing.Therefore, China Merchants Group Ltd. is a related party that dominates the major decision-makings of China Merchants Industry Development (Shenzhen) Limited.

(2) JPMorgan Chase & Co. was deemed to hold interests in a total of 503,854,268 H shares (long position) and 44,962,101 H Shares (short position) in the Company by virtue of its control over a number of corporations, which were directly or indirectly wholly-owned by JPMorgan Chase & Co. except for the following:

(2.1) China International Fund Management Co Ltd. held 6,570,000 H shares (long position) in the Company. China International Fund Management Co Ltd. was held as to 49% by JPMorgan Asset Management (UK) Limited, which was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 139,743,375 H shares. Besides, 35,996,897 H shares (long position) and 44,962,101 H shares (short position) were held through derivatives as follows:

| | | |
|---|---|---|
| 5,080,620 H shares (long position) and 6,686,000 H shares (short position) | – | through physically settled derivatives (on exchange) |
| 2,597,000 H shares (short position) | – | through cash settled derivatives (on exchange) |
| 2,728,000 H shares (long position) and 5,135,452 H shares (short position) | – | through physically settled derivatives (off exchange) |
| 28,188,277 H shares (long position) and 30,543,649 H shares (short position) | – | through cash settled derivatives (off exchange) |

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

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

(3.2) Verise Holdings Company Limited was wholly-owned by Guoxin International Investment Corporation Limited, which was deemed to hold the 477,903,500 H shares in the Company which Verise Holdings Company Limited was deemed to hold.

(3.3) Boyuan Investment Company Limited (referred to in (3)) was deemed to hold the 477,903,500 H shares in the Company which Guoxin International Investment Corporation Limited was deemed to hold by virtue of holding 90% interest in Guoxin International Investment Corporation Limited.

(3.4) The 477,903,500 H shares referred to in (3) and (3.1) to (3.3) represent the same shares.

(4) BlackRock, Inc. was deemed to hold interests in a total of 269,818,362 H shares (long position) and 1,696,500 H Shares (short position) in the Company (of which, 128,500 H shares were held through cash settled derivatives (off exchange) ) by virtue of its control over a number of corporations, which were all indirectly wholly-owned by BlackRock, Inc., except for the following:

(4.1) 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:

(4.1.1) BlackRock Japan Co., Ltd. (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 5,342,500 H shares (long position) in the Company.

(4.1.2) BlackRock Asset Management Canada Limited held 504,500 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..

(4.1.3) BlackRock Investment Management (Australia) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 574,000 H shares (long position) in the Company.

(4.1.4) BlackRock Asset Management North Asia Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 2,246,124 H shares (long position) in the Company.

(4.2) BlackRock Group Limited was held as to 90% by BR Jersey International Holdings L.P. (referred to in (4.1)). BlackRock Group Limited held equity interest in the Company through its direct or indirect wholly-owned companies as follows:

(4.2.1) BlackRock (Netherlands) B.V. held 2,778,309 H shares (long position) in the Company.

(4.2.2) BlackRock Advisors (UK) Limited held 45,693,283 H shares (long position) in the Company.

(4.2.3) BlackRock International Limited held 1,540,498 H shares (long position) in the Company.

(4.2.4) BlackRock Asset Management Ireland Limited held 29,046,784 H shares (long position) in the Company.

(4.2.5) BLACKROCK (Luxembourg) S.A. held 539,792 H shares (long position) in the Company.

(4.2.6) BlackRock Investment Management (UK) Limited held 10,693,693 H shares (long position) in the Company.

(4.2.7) BlackRock Asset Management Deutschland AG held 229,231 H shares (long position) in the Company.

(4.2.8) BlackRock Fund Managers Limited held 1,969,711 H shares (long position) in the Company.

(4.2.9) BlackRock Life Limited held 88,000 H shares (long position) in the Company.

(4.2.10) BlackRock Asset Management (Schweiz) AG held 22,000 H shares (long position) in the Company.

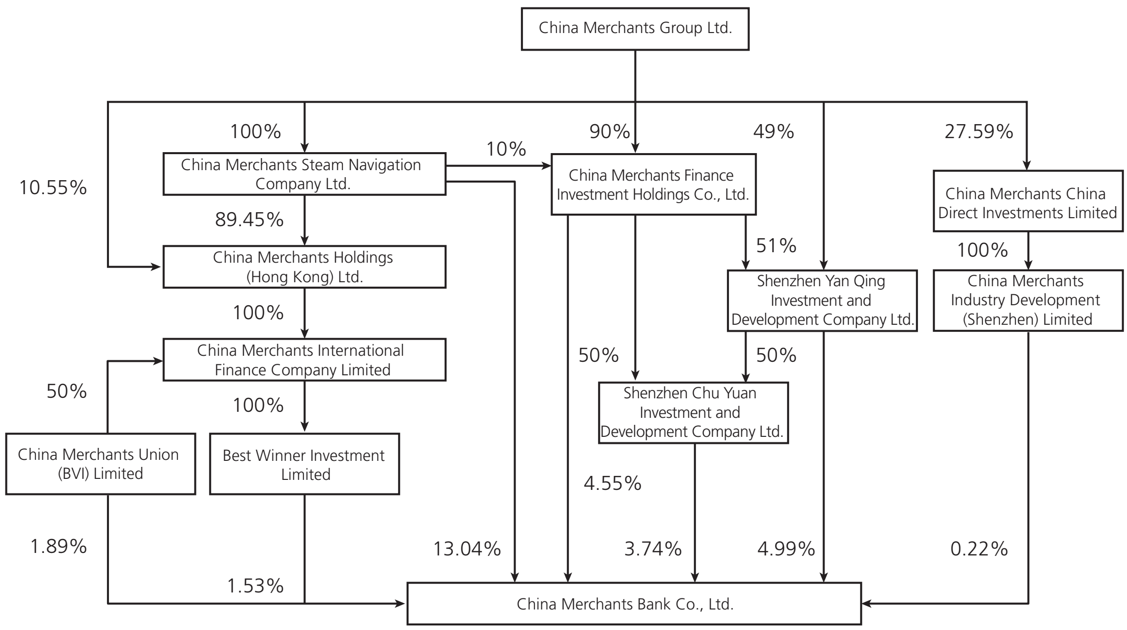
Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) who has any interests or short positions in the shares and underlying shares of the Company as at 31 December 2015 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

(1) China Merchants Steam Navigation Company Ltd., the largest shareholder of the Company, was founded on 22 February 1992 in Beijing with a registered capital of RMB5.9 billion (organisation code: 10001145-2). Its legal representative is Mr. Li Jianhong. It is a wholly owned subsidiary of China Merchants Group Ltd., and mainly engaged in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo, etc; as well as investment and management of transportation-related financial businesses including banking, securities and insurance.

(2) China Merchants Group Ltd. directly holds 100% equity interest in China Merchants Steam Navigation Company Ltd. and is the parent company of the Company's largest shareholder. Its legal representative is Mr. Li Jianhong. China Merchants Group Ltd. is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was incorporated in 1872, when China was in its late Qing Dynasty and was undergoing the Westernisation Movement, and 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 conglomerate, with its businesses focusing on three core industries, namely traffic (harbour, highway, energy transport and logistics, ship maintenance and ocean engineering), financial (bank, securities, funds and insurance) and real estates (industrial zone development and real estate development).

So far as the Company is aware, as at the end of the reporting period, the equity relationship between the Company, and its largest shareholder and parent company of its largest shareholder is illustrated as follows:




Note: in the above chart, the 4.55% equity interest in the Company held by China Merchants Finance Investment Holdings Co., Ltd. includes the 0.89% equity interest in the Company held by it through asset management plans.

So far as the Company is aware, as at 31 December 2015, China Merchants Group Ltd. indirectly held an aggregate of 29.97% of the total shares of the Company, consisting of 26.78% of A Shares and 3.20% of H Shares of the Company. (In this report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding.)

On 8 October 2015, China Merchants Steam Navigation Company Ltd., China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., Shenzhen Chu Yuan Investment and Development Company Ltd. and Best Winner Investment Limited jointly published the Simplified Report on Changes in Shareholdings of China Merchants Bank. For details, please refer to the relevant announcements on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

(3) On 28 December 2015, SASAC of the State Council issued the "Notice Regarding the Restructuring of China Merchants Group Ltd. and Sinotrans & CSC Holdings Co., Ltd." (Guo Zi Fa Gai Ge (2015) No. 181) (《關於招商局集團有限公司和中國外運長航集團有限公司重組的通知》(國資發改革[2015]181號)), pursuant to which, Sinotrans & CSC Holdings Co., Ltd. will be transferred to China Merchants Group at nil consideration, as approved by the State Council. On 24 February 2016, the Enterprise Property Right Registration Form (企業產權登記表) of Sinotrans & CSC Holdings Co., Ltd. was confirmed by the SASAC of the State Council, confirming that China Merchants Group Ltd. is registered as the capital contributor of Sinotrans & CSC Holdings Co., Ltd.; the 22,207,847 shares in China Merchants Bank (accounting for approximately 0.09% of the entire share capital of the Company) held by Sinotrans & CSC Holdings Co., Ltd. and Wuhan Changjiang Shipping Company (its subsidiary) are indirectly held by China Merchants Group (the "Change in Shareholding"). Upon completion of this Change in Shareholding, China Merchants Group Ltd. (including Sinotrans & CSC Holdings Co., Ltd. and Wuhan Changjiang Shipping Company) will have a de facto control of an aggregate of 7,581,635,222 shares in China Merchants Bank, accounting for approximately 30.06% of the entire share capital of the Company (hereinafter referred to as the "Acquisition"). The Acquisition would trigger an obligation to make a general offer and China Merchants Steam Navigation Company Ltd. (as the applicant) has applied to the CSRC for an exemption from the obligation to make a general offer. Matters related with the Change in Shareholding of major shareholders involved in the Acquisition are still subject to examination by the China Banking Regulatory Commission. The Executive of the Securities and Futures Commission of Hong Kong has granted a waiver in respect of the Acquisition to China Merchants Group Ltd. from the obligation to make a general offer for all the shares of China Merchants Bank under Rule 26 of The Codes on Takeovers and Mergers and Share Buy-backs as a result of the Change in Shareholding. Up to date, the examination and approval procedures necessary for this Change in Shareholding have not been completed yet. Upon completion of such examination and approval procedures, China Merchants Group will become a de facto controller of the Company and the Company will make further announcements in due course according to relevant requirements. For details, please refer to the "Indicative Announcement Regarding Important Notice from a Shareholder", "Indicative Announcement Regarding Disclosure of Acquisition Report (Summary) by Shareholder(s)" and the "Acquisition Report (Summary) of China Merchants Bank Co., Ltd." published by the Company on 29 February 2016 at the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

# 7.5 Information on other shareholders holding more than 10% shares of the Company

As at the end of the reporting period, Anbang Property & Casualty Insurance Company Ltd. held 10.72% of the Company's shares through the securities account for "Anbang Property & Casualty Insurance Company Ltd. – traditional products". Anbang Property & Casualty Insurance Company Ltd. was founded on 31 December 2011 with a registered capital of RMB37.0 billion (organisation code: 59963808-5). Its legal representative is Zhang Feng. Anbang Property & Casualty Insurance Company Ltd. is held as to 97.56% by Anbang Insurance Group Co., Ltd.. The business scope of Anbang Property & Casualty Insurance Company Ltd. includes: property damage insurance; liability insurance; credit insurance and guarantee insurance; short-term health insurance and accident insurance; reinsurance of the aforesaid businesses; the investment of insurance premiums as permitted under the national laws and regulations; other businesses as approved by China Insurance Regulatory Commission.

# 7.6 Share issuance and listing

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

## Internal staff shares

The Company had not issued internal staff shares during the reporting period.

# 7.7 Issuance of bonds

## Issuance of medium-term notes in 2015

According to the business development plan of the Company, the New York Branch of the Company issued medium-term notes in the amount of USD500 million in Hong Kong in May 2015, all of which are fixed-rate notes for a term of 3 years with a coupon rate of 2.485%. As at 31 December 2015, the proceeds raised from issuance of the medium-term notes were fully used to replenish the general working capital of the Company.

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

## 8.1 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 | 2014.8-2016.5 | – | – | – | Yes |
| | | | Non-Executive Director | 2014.7-2016.5 | | | | |
| Ma Zehua | Male | 1953.1 | Vice Chairman | 2014.8-2016.5 | – | – | – | Yes |
| | | | Non-Executive Director | 2014.3-2016.5 | | | | |
| Li Xiaopeng | Male | 1959.5 | Vice Chairman | 2015.11-2016.5 | – | – | – | Yes |
| | | | Non-Executive Director | 2014.11-2016.5 | | | | |
| Tian Huiyu | Male | 1965.12 | Executive Director | 2013.8-2016.5 | – | – | 474.60 | No |
| | | | President and Chief Executive Officer | 2013.9-2016.5 | | | | |
| Li Yinquan | Male | 1955.4 | Non-Executive Director | 2001.4-2016.5 | – | – | – | Yes |
| Sun Yueying | Female | 1958.6 | Non-Executive Director | 2001.4-2016.5 | – | – | – | Yes |
| Li Hao | Male | 1959.3 | Executive Director, First Executive Vice President and Chief Financial Officer | 2007.6-2016.5 | – | – | 379.68 | No |
| Fu Gangfeng | Male | 1966.12 | Non-Executive Director | 2010.8-2016.5 | – | – | – | Yes |
| Hong Xiaoyuan | Male | 1963.3 | Non-Executive Director | 2007.6-2016.5 | – | – | – | Yes |
| Su Min | Female | 1968.2 | Non-Executive Director | 2014.9-2016.5 | – | – | – | Yes |
| Leung Kam Chung, Antony | Male | 1952.1 | Independent Non-Executive Director | 2015.1-2016.5 | – | – | 27.50 | No |
| Wong Kwai Lam | Male | 1949.5 | Independent Non-Executive Director | 2011.7-2016.5 | – | – | 30.00 | No |
| Pan Chengwei | Male | 1946.2 | Independent Non-Executive Director | 2012.7-2016.5 | – | – | 30.00 | No |
| Pan Yingli | Female | 1955.6 | Independent Non-Executive Director | 2011.11-2016.5 | – | – | 30.00 | No |
| Guo Xuemeng | Female | 1966.9 | Independent Non-Executive Director | 2012.7-Note 1 | – | – | 30.00 | No |
| Zhao Jun | Male | 1962.9 | Independent Non-Executive Director | 2015.1-2016.5 | – | – | 27.50 | No |
| Liu Yuan | Male | 1962.1 | Chairman of Board of Supervisors, Employee Supervisor | 2014.8-2016.5 | – | – | 379.68 | No |
| Zhu Genlin | Male | 1955.9 | Shareholder Supervisor | 2003.5-2016.5 | – | – | – | Yes |
| Fu Junyuan | Male | 1961.5 | Shareholder Supervisor | 2015.9-2016.5 | – | – | – | Yes |
| Liu Zhengxi | Male | 1963.7 | Shareholder Supervisor | 2012.5-2016.5 | – | – | – | Yes |
| Pan Ji | Male | 1949.4 | External Supervisor | 2011.5-Note 1 | – | – | 37.50 (Note 2) | No |
| Dong Xiande | Male | 1947.2 | External Supervisor | 2014.6-Note 1 | – | – | 40.00 (Note 2) | 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 |
|---|---|---|---|---|---|---|---|---|
| Jin Qingjun | Male | 1957.8 | External Supervisor | 2014.10-2016.5 | 65,800 | 65,800 | 30.00 | No |
| Xiong Kai | Male | 1971.4 | Employee Supervisor | 2014.8-2016.5 | – | – | 224.71 | No |
| Huang Dan | Female | 1966.6 | Employee Supervisor | 2015.3-2016.5 | – | – | 190.38 | No |
| Tang Zhihong | Male | 1960.3 | Executive Vice President | 2006.5-2016.5 | – | – | 332.22 | No |
| Ding Wei | Male | 1957.5 | Executive Vice President | 2008.5-2016.5 | – | – | 332.22 | No |
| Zhu Qi | Male | 1960.7 | Executive Vice President | 2008.12-2016.5 | – | – | (Note 3) | No |
| Wang Qingbin | Male | 1956.12 | Executive Vice President and General Manager of Beijing Branch | 2011.6-2016.5 | – | – | 332.22 | No |
| Liu Jianjun | Male | 1965.8 | Executive Vice President | 2013.12-2016.5 | – | – | 332.22 | No |
| Xiong Liangjun | Male | 1963.2 | Secretary of the Party Discipline Committee | 2014.7-present | – | – | 332.22 | No |
| Wang Liang | Male | 1965.12 | Executive Vice President | 2015.1-2016.5 | – | – | 332.22 | No |
| Zhao Ju | Male | 1964.11 | Executive Vice President | 2015.2-2016.5 | – | – | (Note 3) | No |
| Lian Bolin | Male | 1958.5 | Executive Assistant President | 2012.6-2016.5 | – | – | 284.76 | No |
| Xu Shiqing | Male | 1961.3 | Secretary of Board of Directors | 2013.5-2016.5 (Note 4) | – | – | 284.76 | No |
| Zhang Guanghua | Male | 1957.3 | Former Vice Chairman | 2013.8-2015.7 | – | – | 189.84 | No |
| | | | Former Executive Director | 2007.6-2015.7 | | | | |
| Xu Shanda | Male | 1947.9 | Former Independent Non-Executive Director | 2013.11-2015.1 | – | – | – | No |
| Xiao Yuhuai | Male | 1954.6 | Former Independent Non-Executive Director | 2014.3-2015.1 | – | – | – | No |
| Yu Yong | Male | 1962.7 | Former Employee Supervisor | 2013.5-2015.3 | – | – | 40.50 | No |
| An Luming | Male | 1960.4 | Former Shareholder Supervisor | 2012.5-2015.8 | – | – | – | Yes |

Notes:

1. For details about the terms of office of Ms. Guo Xuemeng, Mr. Pan Ji and Mr. Dong Xiande, please refer to "Appointment and Resignation of Directors, Supervisors and Senior Management" in this Chapter.

2. The total pre-tax remuneration received by Mr. Pan Ji from the Company during the reporting period includes delayed payment of the allowances for external supervisors for the periods from October to December 2014 and from January to December 2015; The total pre-tax remuneration received by Mr. Dong Xiande from the Company during the reporting period includes delayed payment of the allowances for external supervisors for the periods from July to December 2014 and from January to October 2015.

3. Mr. Zhu Qi received his remuneration from WLB, a subsidiary of the Company. Mr. Zhao Ju received his remuneration from China Merchants International Finance Company Limited, a subsidiary of the Company.

4. Mr. Xu Shiqing was appointed as the Secretary of Board of Directors of the Company (whose qualification was approved by the PRC banking regulator(s) in February 2015) at the first meeting of the Ninth Session of the Board of Directors of the Company held in May 2013.

5. The remuneration received from the Company by the directors, supervisors and senior management who were appointed or resigned during the reporting period is calculated on the length of their service in the Company during the reporting period.

6. 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 remuneration of the other people will be disclosed separately upon confirmation of payment.

7. None of the directors, supervisors and senior management listed in the above table holds share options or has been granted restricted shares of the Company.

8. None of the Directors, Supervisors or Senior Management who hold office currently or have resigned during the reporting period has been punished by the securities regulator(s) over the past three years.

# 8.2 Appointment and Resignation of Directors, Supervisors and Senior Management

According to the resolutions passed at the 2014 Second Extraordinary General Meeting of the Company, Mr. Leung Kam Chung, Antony and Mr. Zhao Jun were elected as Independent Non-executive Directors of the Ninth Session of the Board of Directors of the Company. Their qualifications for serving as Directors were approved by the banking regulator(s) in the PRC in January 2015. According to the resolution passed at the 2015 First Extraordinary General Meeting of the Company, Mr. Zhang Feng was nominated as a Non-executive Director of the Company, but his appointment qualification is still subject to approval by the banking regulator(s) in the PRC. Mr. Li Xiaopeng was elected as the Vice Chairman of the Company at the 35th meeting of the Ninth Session of the Board of Directors of the Company. His appointment qualification has been approved by the PRC banking regulator(s) in November 2015.

Mr. Zhang Guanghua submitted a letter of resignation to the Company on 14 July 2015 due to work reasons, and ceased to be Vice Chairman and Executive Director of the Company. Mr. Xu Shanda and Mr. Xiao Yuhuai ceased to be Independent Non-executive Director of the Company with effect from January 2015. Mr. Fu Junyuan submitted a letter of resignation to the Company on 26 August 2015 due to work reasons, and ceased to be Non-Executive Director of the Company. Ms. Guo Xuemeng submitted a letter of resignation to the Company on 12 November 2015 due to work reasons and her resignation will take effect only after a new Independent Non-Executive Director has been elected at the general meeting of the Company to fill her vacancy and whose qualification for serving as the independent non-executive director has been approved by the PRC banking regulatory authorities.

According to the resolutions passed at the 2015 First Extraordinary General Meeting of the Company and the voting results of the employee representatives meeting of the Company, Mr. Fu Junyuan and Ms. Huang Dan were elected as Shareholder Supervisor and Employee Supervisor of the Ninth Session of the Board of Supervisors of the Company, respectively. Mr. Yu Yong, a Former Employee Supervisor, ceased to be Employee Supervisor of the Company with effect from March 2015 and Mr. An Luming, a Former Shareholder Supervisor, ceased to be Shareholder Supervisor of the Company with effect from August 2015. There were no changes to other members of the Board of Supervisors. Mr. Dong Xiande resigned as External Supervisor of the Company in September 2015 and Mr. Pan Ji resigned as External Supervisor of the Company in November 2015. Their resignations will take effect only after new External Supervisors have been appointed at the general meeting of the Company to fill their vacancies.

According to the resolutions passed at the 26th meeting of the Ninth Session of the Board of Directors of the Company, Mr. Wang Liang and Mr. Zhao Ju were appointed as Executive Vice Presidents of the Company. Their qualifications for serving as Executive Vice Presidents have been approved by the CBRC, Shenzhen Office in December 2014 and February 2015, respectively.

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

# 8.3 Changes of Information of Directors and Supervisors during the Reporting Period

1. Mr. Li Jianhong, Chairman of the Company, ceased to be the Chairman of the Board of Directors of China Merchants Holdings (International) Co., Ltd., the Chairman of China International Marine Containers (Group) Limited and the Chairman of China Merchants Capital Investments Co., Ltd..

2. Mr. Ma Zehua, Vice Chairman of the Company, ceased to be the Chairman of China Ocean Shipping (Group) Company (COSCO Group).

3. Mr. Li Xiaopeng, Vice Chairman of the Company, concurrently serves as Chairman of the Board of Directors of China Merchants Holdings (International) Co., Ltd., Chairman of China Merchants Capital Investments Co., Ltd., Chairman of China Merchants United Development Company Limited, Chairman of China Merchants Investment and Development Co., Ltd. (招商局投資發展有限公司), Vice President of China Tourism Association, and ceased to concurrently serve as Chairman of China Merchants Energy Shipping Company Limited and China Merchants Huajian Highway Investment Company Limited.

4. Mr. Tian Huiyu, Executive Director, President and Chief Executive Officer of the Company, concurrently serves as Vice Chairman of CMB-China Unicom Consumption Finance Co., Ltd.

5. Mr. Li Yinquan, Non-executive Director of the Company, serves as Independent Non-executive Director of Universal Medical Financial & Technical Advisory Services Company Limited, and ceased to be the Deputy General Manager of China Merchants Group Ltd., the Chairman of China Merchants Finance Holdings Company Limited and Director of China Merchants Holdings (International) Co., Ltd..

6. Ms. Sun Yueying, Non-executive Director of the Company, serves as Chief Accountant of China Cosco Shipping Corporation Limited (中國遠洋海運集團有限公司), the new entity resulting from combination of China Ocean Shipping (Group) Company with China Shipping (Group) Limited, and ceased to be the Chief Accountant of China Ocean Shipping (Group) Company.

7. Mr. Li Hao, Executive Director and First Executive Vice President of the Company, concurrently serves as Chairman of CMFM and Vice Chairman of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd. (深圳市招銀前海金融資產交易中心有限公司).

8. Mr. Fu Gangfeng, Non-executive Director of the Company, serves as Executive Director of China Merchants Holdings (International) Company Limited; Mr. Fu Gangfeng serves as Vice Chairman of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司), the surviving entity after combination with China Merchants Properties Limited (招商地產股份有限公司) by way of merger.

9. Mr. Hong Xiaoyuan, Non-executive Director of the Company, serves as Chairman of China Merchants Finance Holdings Company Limited, Chairman of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd. (深圳市招銀前海金融資產交易中心有限公司), Vice Chairman of China Merchants Capital Investments Co., Ltd., and ceased to be the Chairman of Bosera Asset Management Co., Ltd., General Manager of China Merchants Finance Holdings Company Limited and Director of China Merchants Securities Co., Ltd..

10. Ms. Su Min, Non-executive Director of the Company, serves as General Manager of China Merchants Finance Holdings Company Limited, Chairman of Shenzhen Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啟航互聯網投資管理有限公司), Supervisor of China Merchants Capital Investments Co., Ltd., and ceased to be the Chief Accountant and a member of the Communist Party of China Committee of China Shipping (Group) Company, Chairman of CS Finance Company, and director of China Shipping Development Co., Ltd. and China Shipping Container Lines Company Limited.

11. Mr. Leung Kam Chung, Antony, Independent Non-executive Director of the Company, serves as the Chairman of charitable organizations, Heifer International – Hong Kong and "Food Angel", and ceased to be Senior Advisor and Member of the International Advisory Board of Blackstone.

12. Mr. Wong Kwai Lam, Independent Non-executive Director of the Company, serves as an Independent Non-executive Director of Hutchison Port Holdings Trust.

13. Ms. Guo Xuemeng, Independent Non-executive Director of the Company, serves as an Independent Non-executive Director of Luoyang North Glass Technology Co., Ltd., and ceased to be Independent Non-executive Director of Beijing Bode Communication Equipment Co., Ltd. (北京博得交通設備股份有限公司).

14. Mr. Zhu Genlin, Shareholder Supervisor of the Company, ceased to be the vice president of SAIC Motor Corporation Limited and was appointed as vice president of SAEFI Automotive Branch.

15. Mr. Liu Zhengxi, Shareholder Supervisor of the Company, ceased to be the vice president of Shandong State-owned Assets Investment Holdings Co., Ltd. and was redesignated as a director and deputy secretary of the CPC committee of Shandong State-owned Assets Investment Holdings Co., Ltd., and concurrently serves as Chairman (legal representative), secretary of the CPC committee and general manager of Shandong Province Pharmaceutical Group (山東省醫藥集團有限公司).

16. Mr. Jin Qingjun, External Supervisor of the Company, concurrently served as an independent director of Xi'an Dagang Road Machinery Co., Ltd. and Times Property Holdings Limited, as well as a director of Konka Group Co., Ltd..

17. Mr. Xiong Kai, Employee Supervisor of the Company, ceased to be the general manager of the Inspection and Security Department of the Company and was appointed as director of General Office of the Company. He concurrently serves as General Manager of Asset Security Department of the Company.

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

| Name | Name of Company | Title | Term of office |
|---|---|---|---|
| Li Jianhong | China Merchants Group Ltd. | Chairman | From July 2014 up to now |
| Ma Zehua | China Ocean Shipping (Group) Company | Chairman | From July 2013 to January 2016 |
| Li Xiaopeng | China Merchants Group Ltd. | General Manager | From July 2014 up to now |
| Li Yinquan | China Merchants Group Ltd. | Deputy General Manager | From July 2002 to March 2015 |
| Sun Yueying | China Ocean Shipping (Group) Company | Chief Accountant | From December 2000 to January 2016 |
| Fu Gangfeng | China Merchants Group Ltd. | Chief Financial Officer | From November 2011 up to now |
| Hong Xiaoyuan | China Merchants Group Ltd. | Assistant General Manager | From September 2011 up to now |
| Fu Junyuan | China Communications Construction Co., Ltd. | Executive Director & Chief Financial Officer | From September 2006 up to now |
| Zhu Genlin | SAIC Motor Corporation Limited | Vice President | From January 2012 to June 2015 |
| Fu Junyuan | China Communications Construction Co., Ltd. | Executive Director & Chief Financial Officer | From September 2006 up to now |
| Liu Zhengxi | Shandong State-owned Assets Investment Holdings Co. Ltd. | Director, Deputy Secretary of the CPC Committee | From August 2015 up to now |

# 8.5 Biography of Directors, Supervisors and Senior Management and Information of Their Concurrent Posts

## Directors

**Mr. Li Jianhong** is the Chairman and Non-executive Director of the Company. He 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. He is a senior economist. Mr. Li has been a Director of the Company since July 2014 and the Chairman of the Company since August 2014. Currently, he serves as the Chairman of China Merchants Group Ltd. Mr. Li was the vice president of China Ocean Shipping (Group) Company, and the director and president of China Merchants Group Ltd.. He was also the chairman of the board of directors of China Merchants Holdings (International) Co., Ltd. (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 the 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. Ma Zehua** is the Vice Chairman and Non-executive Director of the Company. He obtained a master's degree in international law from Shanghai Maritime Institute (now known as Shanghai Maritime University), and is a senior economist. He has been the Director of the Company since March 2014 and the Vice Chairman of the Company since August 2014. Mr. Ma is currently a deputy to the 12th session of the National People's Congress of the PRC and a member of the Foreign Affairs Committee. From 1990 to 2016, Mr. Ma served as the general manager of COSCO (UK) Ltd., the general manager of development department and head of overseas business division of COSCO Group, the assistant to president and general manager of development department of COSCO Group, the president of COSCO Americas, Inc., the deputy general manager of Guangzhou Ocean Shipping Company, the general manager of Qingdao Ocean Shipping Company, the vice president of COSCO Group, the vice president of China Shipping (Group) Company, a director, the president and the chairman of China Ocean Shipping (Group) Company.

**Mr. Li Xiaopeng** is the Vice Chairman and Non-executive Director of the Company. He obtained his Ph.D. in finance from Wuhan University. He is a senior economist. He has been a Director of the Company since November 2014 and the Vice Chairman of the Company since November 2015. Mr. Li is currently the general manager of China Merchants Group Ltd.. He is concurrently the chairman of the board of directors of China Merchants Holdings (International) Co., Ltd. (a company listed on Hong Kong Stock Exchange), the chairman of China Merchants Capital Investments Co., Ltd., the chairman of China Merchants United Development Company Limited, the chairman of China Merchants Investment and Development Co., Ltd. (招商局投資發展有限公司), the vice chairman of China Tourism Association, the vice chairman of China Urban Financial Society and the vice chairman of China Rural Financial Society. He successively served as the deputy general manager of Henan Branch of Industrial and Commercial Bank of China Limited ("ICBC"), the general manager of the banking department of the head office of ICBC, the general manager of ICBC Sichuan Branch, the vice president of China Huarong Asset Management Corporation, the assistant to the president of ICBC and the general manager of ICBC Beijing Branch, the vice president of ICBC, the vice president and executive director of Industrial and Commercial Bank of China Limited, and the chairman of the board of supervisors of China Investment Corporation. He also served concurrently as the chairman of ICBC International Holdings Ltd., the chairman of ICBC Financial Leasing Co., Ltd., the chairman of ICBC Credit Suisse Asset Management 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. Tian Huiyu** is an Executive Director, President and Chief Executive Officer of the Company. He obtained his bachelor's degree in infrastructure finance and credit from Shanghai University of Finance and Economics and his master's degree in public administration from Columbia University. He is a senior economist. Mr. Tian 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 served consecutively as the deputy general manager of Shanghai Branch of CCB, the head and general manager of Shenzhen Branch of CCB from December 2006 to March 2011. Mr. Tian acted as the business executive of retail banking at the head office and general manager of Beijing Branch of China Construction Bank Corporation ("CCB") (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) from March 2011 to May 2013. He joined the Company in May 2013 and was appointed as the President of the Company in September 2013. Mr. Tian is concurrently the vice chairman of CMB-China Unicom Consumption Finance Co., Ltd. (招聯消費金融有限公司).

**Mr. Li Yinquan** is a Non-executive Director of the Company. He obtained a master's degree in economics from the Graduate School of the People's Bank of China and a master's degree in finance from FINAFRICA, Italy. He is a senior economist. He has been a Director of the Company since April 2001. He is a deputy to the 12th session of the National People's Congress of Hong Kong Special Administrative Region. He is a director of China Merchants Group, the vice chairman and CEO of China Merchants Capital Investments Co., Ltd., the chairman of China Merchants Kunlun Equity Investment Fund Management Co., Ltd. and China Merchants China Investment Management Limited, a director of China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange), and an independent non-executive director of Universal Medical Financial & Technical Advisory Services Company Limited. He was the chief financial officer and deputy general manager of China Merchants Group Ltd..

**Ms. Sun Yueying** is a Non-executive Director of the Company. She is a bachelor's degree holder and is a senior accountant. She has been a Director of the Company since April 2001. She has been the chief accountant of China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司), a non-executive director of China COSCO Holdings Company Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), the chairman of COSCO Finance Co., Ltd. and a director of China Merchants Securities Co., Ltd. (a company listed on Shanghai Stock Exchange). She was the chief accountant of China Ocean Shipping (Group) Company.

**Mr. Li Hao** is an Executive Director, First Executive Vice President and Chief Financial Officer of the Company. Mr. Li obtained a master's degree in business administration from the University of Southern California and is a senior accountant. He joined the Company in May 1997 as the Executive Assistant President of the Head Office. He was the general manager of the Shanghai Branch of the Company from April 2000 to March 2002. Mr. Li has been an Executive Vice President of the Company since December 2001, the Chief Financial Officer since March 2007, an Executive Director of the Company since June 2007, and the First Executive Vice President of the Company since May 2013. He is concurrently the chairman of CMFM and the vice chairman of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd. (深圳市招銀前海金融資產交易中心有限公司).

**Mr. Fu Gangfeng** is a Non-executive Director of the Company. He 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 has been a Director of the Company since August 2010. He is the chief financial officer of China Merchants Group Ltd., an executive director of China Merchants Holdings (International) Co., Ltd. (a company listed on Hong Kong Stock Exchange) and the vice chairman of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司) (a company listed on Shenzhen Stock Exchange). 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., and the general manager of the finance division of China Merchants Group Ltd..

**Mr. Hong Xiaoyuan** is a Non-executive Director of the Company. He 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 has been a Director of the Company since June 2007. He is concurrently the assistant general manager of China Merchants Group Ltd. and the chairman of China Merchants Finance Holdings Company Limited, the chairman of China Merchants Finance Investment Holdings Co., Ltd., China Merchants Holdings (U.K.) Co., Ltd., China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange) and Shenzhen CMB Qianhai Financial Assets Exchange Centre Co., Ltd. (深圳市招銀前海金融資產交易中心有限公司) and the vice chairman of China Merchants Capital Investments Co., Ltd.,.

**Ms. Su Min** is a Non-executive Director of the Company. She 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. She is a senior accountant, certified public accountant and certified public valuer. She has been a Director of the Company since September 2014. Ms. Su is concurrently the general manager of China Merchants Finance Holdings Company Limited, the chairman of Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啟航互聯網投資管理有限公司) and a supervisor of China Merchants Capital Investments Co., Ltd.. Ms. Su successively served as the deputy director of Property Office of the State-owned Assets Supervision and Administration Commission of Anhui Province, the chief accountant of Anhui Energy Group Co., Ltd., Director of Huishang Bank, the chairman and general manager of Anhui Hefei Wanneng Microfinance Company, 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 Committee of China Shipping (Group) Company, the chairman of CS Finance Company, 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).

**Mr. Leung Kam Chung, Antony** is an Independent Non-executive Director of the Company. He obtained a bachelor's degree in social sciences from the University of Hong Kong, and attended Harvard Business School's Program for Management Development and Advanced Management Program. He has been an Independent Non-executive Director of the Company since January 2015. He is concurrently the chief executive officer of Nan Fung Group, the chairman of charitable organizations, Heifer International – Hong Kong and "Food Angel", and the chairman of Harvard Business School Association of Hong Kong. Mr. Leung served as a member of Blackstone's Executive Committee, the Senior Managing Director and the Chairman of Greater China Region. 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, 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. The government services that Mr. Leung had engaged in included 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, member of the board of Hong Kong Airport Authority and Director of the Hong Kong Futures Exchange.

**Mr. Wong Kwai Lam** is an Independent Non-executive Director of the Company. He obtained a bachelor's degree from The Chinese University of Hong Kong and Ph. D from Leicester University, U.K.. He is concurrently an Honorary Fellow of The Chinese University of Hong Kong. He has been an Independent Non-executive Director of the Company since July 2011. He is the chairman of IncitAdv Consultants Ltd., a director of Opera Hong Kong, a member of the Strategic Investment Society of The Chinese University of Hong Kong, the vice chairman of the Board of Trustee and a member of the Strategic Investment Society of New Asia College of The Chinese University of Hong Kong, the manager of Prosperity Real Estate Investment Trust, an independent non-executive director of K. Wah International Holdings Limited (a company listed on Hong Kong Stock Exchange), and an independent non-executive director of Langham Hospitality Investments Limited (a company listed on Hong Kong Stock Exchange), LHIL Manager Limited and Hutchison Port Holdings Trust (a company listed on SGX-ST). He is concurrently a member of the board of directors of Chinese University of Hong Kong Medical Center Co., Ltd. (香港中文大學醫療中心有限公司) and a member of the Governance Committee of Prince of Wales Hospital located in Shatin, Hong Kong. He was the managing director of Merrill Lynch (Asia Pacific) Limited and the chairman of Asia Pacific Investment Banking. Mr. Wong was also a member of Advisory Committee under the Securities and Futures Commission in Hong Kong and its committee on Real Estate Investment Trusts, and a member of the China Committee to the Hong Kong Trade Development Council.

**Mr. Pan Chengwei** is an Independent Non-executive Director of the Company. He graduated from Cadre Institute under the Ministry of Transport with an associate bachelor's degree and is an accountant. He has been an Independent Non-executive Director of the Company since July 2012. He is currently an independent non-executive director of Shenzhen Nanshan Power Co., Ltd., (a company listed on Shenzhen Stock Exchange) and the China International Marine Containers (Group) Co., Ltd. (a company listed on Hong Kong Stock Exchange and the Shenzhen Stock Exchange). He was the general manager of finance department of China Ocean Shipping (Group) Company (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), the general manager of finance department of COSCO (Hong Kong) Group Limited, the general manager of COSCO (H.K.) Property Development Limited, the general manager of COSCO (H.K.) Industry & Trade Holdings Ltd., the chief representative of Shenzhen representative office of COSCO HK Group, the general manager of COSCO (Cayman) Fortune Holding Co., Ltd. and its Hong Kong branch, and the compliance manager of the Fuel Oil Futures Department of China Ocean Shipping (Group) Company.

**Ms. Pan Yingli** is an Independent Non-executive Director of the Company. She obtained a bachelor's degree in economics from East China Normal University, a master's degree in economics from Shanghai University of Finance and Economics and a doctorate degree in world economics from East China Normal University. She has been an Independent Non-executive Director of the Company since November 2011. She is concurrently a director of Research Center for Global Finance, Shanghai Jiao Tong University, a professor and a tutor of doctorate candidates in Finance at Antai College of Economics and Management of Shanghai Jiao Tong University, the vice president of Shanghai World Economy Association, the vice president of Shanghai Institute of International Financial Centers, and the chief expert of the Decision-making Consultation Research Base Studio of Shanghai Municipal Government (上海市政府決策諮詢研究基地工作室). She was an associate professor, a professor and a tutor of doctorate candidates in East China Normal University, and joined Shanghai Jiao Tong University in November 2005. From 1998 to 2007, she served as an invited expert of Shanghai Municipal Government on decision-making consultation.

**Ms. Guo Xuemeng** is an Independent Non-executive Director of the Company. She obtained a master's degree in accounting of economics department from Northern Jiaotong University (renamed as Beijing Jiaotong University in 2003) and a doctorate degree in economics from Beijing Jiaotong University. She has been an Independent Non-executive Director of the Company since July 2012. She is concurrently a professor, a tutor of doctorate candidates of the School of Economics and Management as well as the vice dean of the Graduate School of Beijing Jiaotong University, the secretary-general of Transportation and Economics Committee of China Communication and Transportation Association, a direct member of Railway Accounting Association (鐵道會計學會直屬學會理事), and an independent non-executive director of Gvitech Corporation (偉景行科技股份有限公司) and Luoyang North Glass Technology Co., Ltd.. From July 2001 to November 2012, she successively served as the deputy secretary of the CPC committee of the School of Economics and Management, the deputy director of the general office, the vice dean and deputy secretary of the CPC committee of the School of Economics and Management of Beijing Jiaotong University.

**Mr. Zhao Jun** is an Independent Non-executive Director of the Company. He 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 and a master's degree in financial management from the School of Management of Yale University. He has been an Independent Non-executive Director of the Company since January 2015. Mr. Zhao is currently the chairman of Fupu Fund Management Co., Ltd. (復樸投資管理有限公司). He was a managing partner of DT Capital Partners, the managing director and the chief representative in China of ChinaVest, Ltd..

## Supervisors

**Mr. Liu Yuan** has been the Chairman of the Board of Supervisors of the Company since August 2014. He graduated from Renmin University of China with a bachelor's degree in global economy and is an 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 (division deputy level) 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 held the positions of secretary (deputy 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 was appointed as a member of the CPC Committee at the Head Office of China Merchants Bank in July 2014. He is concurrently a visiting professor of Renmin University of China, the chairman of the professional committee under the supervisory committee of Chinese Association of Listed 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. Zhu Genlin** was a Non-executive Director of the Company from April 2001 to May 2003, and has been a Shareholder Supervisor of the Company since May 2003. Mr. Zhu graduated from Shanghai University of Finance and Economics and obtained a master's degree in economics. He is a senior economist and associate researcher. He was the chief financial officer of Shanghai Automotive Industry Corporation (Group) from February 2002 to August 2010, the vice president of Shanghai Automotive Industry Corporation (Group) from August 2010 to January 2012 and the vice president of SAIC Motor Corporation Limited (a company listed on Shanghai Stock Exchange) from January 2012 to June 2015. He is concurrently the deputy chairman of Automobile Branch of Shanghai Foreign Investment Association (上海市外商投資協會汽車分會).

**Mr. Fu Junyuan** was a Non-executive Director of the Company from March 2000 to September 2015, and has been a Shareholder Supervisor of the Company since September 2015. He obtained a doctorate degree in management and is a senior accountant. He was the chief accountant of China Harbour Engineering (Group) Ltd. and the chief accountant of China Communications Construction (Group) Ltd. from October 1996 to September 2006. He has been an executive director and chief financial officer of China Communications Construction Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He has also been the chairman of CCCC Finance Company Limited and the vice chairman of Jiang Tai Insurance Broker Co., Ltd. since September 2006.

**Mr. Liu Zhengxi** has been a Shareholder Supervisor of the Company since May 2012. He graduated from Hangzhou Institute of Commerce majoring in enterprise management. Mr. Liu served as a section officer, the deputy director of the Planning and Financial Division and the deputy director of the Labor Wage Division of Shandong Provincial Department of Labor and Social Security from 2000 to 2004, the deputy director and the director of the Distribution Department and the Head of the Capital Operation and Gains Management Department of State-owned Assets Supervision and Administration Commission of Shandong Province from 2004 to 2011, the vice president of Shandong State-owned Assets Investment Holding Co., Ltd. from March 2011 to August 2015 and the legal representative of Shandong Pharmaceutical Group Co., Ltd. (山東省醫藥集團有限公司) from May 2015 to December 2015. He has also been a director and deputy secretary of Party Committee of Shandong State-owned Assets Investment Holdings Co., Ltd. (山東省國有資產投資控股有限公司) since August 2015, and the chairman (legal representative), secretary of Party Committee and general manager of Shandong Pharmaceutical Group Co., Ltd. (山東省醫藥集團有限公司) since December 2015.

**Mr. Pan Ji** has been an External Supervisor of the Company since May 2011. He graduated from Beijing Institute of Economics majoring in Labour Economics. He previously served as the supervisor (at director-general level) of the Board of Supervisors of the State-owned Assets Supervision and Administration Commission under the State Council. He used to serve as the deputy director of the Cadre Division Office and the deputy head of Planning & Recruitment Department of the Labour & Personnel Bureau, the vice director, office head, the chief of the Central Committee, the assistant inspector (at deputy director-general level) of the Recruitment Office of the Examination Recruitment Department of the Ministry of Personnel, the assistant to Commissioner and office head of the Investigating Commissioner Office under the State Council, the supervisor and office head of the Board of Supervisors of the Central Enterprises Work Committee, and the supervisor (at deputy director-general level) of the Board of Supervisors of the State-owned Assets Supervision and Administration Commission under the State Council.

**Mr. Dong Xiande** has been an External Supervisor of the Company since June 2014. Mr. Dong graduated from Shanghai Harbour School (上海港灣學校) majoring in accounting and statistics and is a senior accountant. Mr. Dong was the deputy head of Treasury Department of Qinhuangdao Port Authority since August 1984, the head of Treasury Department of Qinhuangdao Port Authority since September 1985 (during which he concurrently served as the director of Settlement Centre of Qinhuangdao Port Authority from December 1997 to July 1998), the chief accountant of Qinhuangdao Port Authority from June 1998 to August 2002 (during which he concurrently served as the head of Treasury Department of Qinhuangdao Port Authority from June 1998 to March 1999), and the director and chief accountant of Qinhuangdao Port Group Co., Ltd. from August 2002 to February 2008 when he retired. Mr. Dong was a non-executive director of the fifth session of the Board of Directors of China Merchants Bank Co., Ltd. from June 2002 to April 2004, and a shareholder supervisor of the seventh session of the Board of Supervisors of China Merchants Bank Co., Ltd. from June 2007 to June 2010.

**Mr. Jin Qingjun** has been an External Supervisor of the Company since October 2014. He obtained a master's degree in law from the Graduate School of China University of Political Science and Law. He was a legal counsel in Hong Kong and the UK and also worked at Jang Shinn Law Office (中信律師事務所) as a legal counsel from August 1987 to October 1993. He was an executive partner at Shu Jin Law Firm (信達律師事務所) from October 1993 to August 2002. Since September 2002, he has been the senior partner of King & Wood Mallesons, Beijing. He is concurrently a part-time professor at the School of Law, China University of Political Science and Law and the School of Law, Renmin University of China; a co-tutor for students of master's degree at the School of Law, Tsinghua University; an arbitrator of Shenzhen Court of International Arbitration, Shanghai International Arbitration Center and Arbitration Foundation of Southern Africa; a mediator of Shenzhen Securities and Futures Dispute Resolution Centre; and the PRC legal counsel of US Court of Appeals for the Washington D.C Circuit. Currently, he serves as an independent director of Guotai Junan Securities Co., Ltd. (a company listed on Shanghai Stock Exchange), Gemdale Corporation (a company listed on Shanghai Stock Exchange), Tianjin Changrong Print and Packing Equipment Co., Ltd. (a company listed on Shenzhen Stock Exchange), Invesco Great Wall Fund Management Company Limited, New China Asset Management Co., Ltd., Times Property Holdings Limited (a company listed on Hong Kong Stock Exchange) and Xi'an Dagang Road Machinery Co., Ltd. (西安達剛路面機械股份有限公司) (a company listed on Shenzhen Stock Exchange), as well as a director of Konka Group Co., Ltd. (a company listed on Shenzhen Stock Exchange). In 2012, he was titled one of the Top 10 PRC Lawyers of the Year and PRC Securities Lawyer of the Year.

**Mr. Xiong Kai** has been an Employee Supervisor of the Company since August 2014. He obtained a doctorate degree in legal theory from the Graduate School of Chinese Academy of Social Sciences. He worked at the Ministry of Public Security from July 1994 to April 2006 and held the positions of deputy section officer, section officer and deputy director. He served as the deputy director (researcher), director, deputy division director and division director at the CPC General Office from April 2006 to July 2014. He was the General Manager of the Inspection and Security Department at the Head Office of China Merchants Bank from July 2014 to August 2015. Mr. Xiong has been the Director of the General Office of the Head Office of China Merchants Bank since August 2015. He concurrently serves as the General Manager of the Asset Security Department of the Company.

**Ms. Huang Dan** has been an Employee Supervisor of the Company since March 2015. She obtained a bachelor's degree in computer software from Huazhong University of Science and Technology, and a master's degree in finance from Southwestern University of Finance and Economics. She is an engineer. Ms. Huang started her career in Tongji Medical University in July 1988, and then served in China Chang Jiang Energy Corp. (Group) in April 1993. She joined the Human Resources Department of the Head Office of China Merchants Bank in April 1994 and successively served as Assistant Manager, Deputy Manager, Manager and Senior Manager. She successively served as the Assistant General Manager and Deputy General Manager in the Human Resources Department of the Head Office of China Merchants Bank from April 2005 to December 2014. She has been the Deputy Director of the Labor Union of the Head Office of China Merchants Bank since December 2014.

## Senior Management

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

Mr. Li Hao, please refer to Mr. Li Hao's biography under the paragraph headed "Directors" 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, the head of the Shenzhen Administration Unit, and Executive Assistant President of the Head Office. He has been an Executive Vice President of the Company since May 2006.

Mr. Ding Wei is an Executive Vice President of the Company. Mr. Ding obtained a master's degree in financial management from Hangzhou University and is an associate researcher. He joined the Company in December 1996. He successively served as the director of the General Office and the general manager of the Banking Department of Hangzhou Branch, the assistant general manager of Hangzhou Branch, the deputy general manager of Hangzhou Branch, the general manager of Nanchang Sub-branch, the general manager of Nanchang Branch, the General Manager of the Human Resources Department of the Head Office, and an Executive Assistant President of the Head Office. He has served as an Executive Vice President of the Company since May 2008. He is concurrently the Director of the Labor Union of the Head Office and a director of CMB International Capital Holdings Corporation Limited.

Mr. Zhu Qi is an Executive Vice President of the Company. Mr. Zhu obtained a master's degree in statistics from Zhongnan University of Finance and Economics and is a senior economist. He joined the Company in August 2008, and has been an Executive Vice President of the Company since December 2008. He is concurrently an executive director and chief executive officer of Wing Lung Bank, an independent non-executive director of Great Eagle Holdings Limited (a company listed on Hong Kong Stock Exchange) and a director of the Hongkong Japan Business Co-operation Committee and a director of CMB International Capital Corporation Limited.

Mr. Wang Qingbin is an Executive Vice President of the Company. He obtained a master's degree in finance from Chinese Academy of Social Sciences and a senior economist. He joined the Company in May 2000 and successively served as the general manager of Jinan Branch and Shanghai Branch, and an Executive Assistant President of the Head Office. He has been an Executive Vice President of the Company since June 2011, and the general manager of Beijing Branch since November 2013.

Mr. Liu Jianjun is an Executive Vice President 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, a Senior Executive Vice President of the Retail Banking Department under the Head Office and the Business Executive since September 2000. He has been an Executive Vice President of the Company since December 2013. He is concurrently the chairman of CIGNA & CMB Life Insurance and a director of China UnionPay Co., Ltd..

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 CBRC Guangxi Bureau and 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 is an Executive Vice President 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 has been the Executive Assistant President of the Company and 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 served as an Executive Vice President of the Company since January 2015.

**Mr. Zhao Ju** is an Executive Vice President of the Company. Mr. Zhao obtained an EMBA from Guanghua School of Management of Peking University. He is an economist. He was appointed as the director and managing director of the Investment Banking Department of UBS Securities Company Limited (Beijing) in December 2009, and as a joint chairman of the China Division and vice chairman of the Asia Division of UBS Investment Bank in July 2012. He joined the Company in November 2014, and has been an Executive Vice President of the Company since February 2015. He concurrently serves as a director of CMB International Capital Holdings Corporation Limited and a director of CMB International Capital Corporation Limited.

**Mr. Lian Bolin** is an Executive Assistant President of the Company. Mr. Lian obtained a bachelor's degree in finance from Anhui Institute of Finance and Trade and is a senior economist. He joined the Company in January 2002 and successively served as the deputy general manager of Hefei Branch, the deputy general manager of Shanghai Branch, the general manager of Jinan Branch and the general manager of Shanghai Branch of the Company. He has been an Executive Assistant President of the Company and the general manager of Shanghai Branch since June 2012. He ceased to serve as the general manager of Shanghai Branch in September 2014. He is concurrently the chairman of CMB Financial Leasing.

**Mr. Xu Shiqing** is the Secretary of the Board of Directors, and one of the joint company secretaries of the Company. He was a doctor of philosophy in Business Administration of the Southern California University and a senior economist. Mr. Xu joined the Company in 1993. He held various positions such as the executive assistant of the General Office of the Head Office, the assistant general manager of International Business Department of the Head Office, the deputy general manager of International Business Department, the deputy general manager of Offshore Business Department of the Head Office, the assistant general manager of the Fuzhou Branch, the deputy general manager of the Planning and Treasury Department of the Head Office, the person-in-charge of Custodian Department of the Head Office, the general manager of Planning and Financial Department and Treasury Department of the Head Office, the general manager of Planning and Financial Department of the Head Office, the general manager of Strategic Development Department and Overseas Development Department of the Head Office, and the general manager of Hong Kong Branch.

## Joint Company Secretaries

**Mr. Xu Shiqing**, please refer to his biography above.

**Ms. Seng Sze Ka Mee, Natalia** has been one of the joint company secretaries of the Company since August 2006. Ms. Seng is the Chief Executive Officer – China and Hong Kong of Tricor Group and an Executive Director of Tricor Services Limited (hereinafter referred to as "Tricor"), and also a Practice Leader of Tricor's Corporate Services and China Consultancy Services. Ms. Seng is a Chartered Secretary, a Past President (2007-2009) and a retired Council Member (1996-2012) and a Fellow of The Hong Kong Institute of Chartered Secretaries ("HKICS"); she is concurrently a Fellow and a retired Council Member (2010-2014) of The Institute of Chartered Secretaries and Administrators in the United Kingdom, and a Fellow of both The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. Ms. Seng was appointed by the government as a member of the Standing Committee on Company Law Reform and the Corruption Prevention Advisory Committee of Independent Commission Against Corruption for a term of two years from February 2016 to January 2018. Ms. Seng has become a member of the Advisory Panel to the Rewrite of the Company Ordinance as a representative of HKICS. Ms. Seng was appointed by government as a lay member to the Council of the Hong Kong Institute of Certified Public Accountants from December 2013 to November 2015, and has been an appointed member of the Inland Revenue Department Users' Committee since 2009. Ms. Seng holds a master's degree in Business Administration (Executive) from City University of Hong Kong. Apart from the Company, she has also been providing secretarial services to other listed companies with support of her professional team.

# 8.6 Explanation on the office location of Chairman of the Company

Mr. Li Jianhong, Chairman of the Company, also acts as the Chairman of China Merchants Group Ltd.. China Merchants Group Ltd. is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. It is a state-owned large-sized business group with business operations headquartered in Hong Kong. Therefore, Mr. Li Jianhong's daily office place is located in Hong Kong.

# 8.7 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 External Supervisors"; offers remuneration to executive directors and other senior executives according to the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released in 2015); and offers remuneration to employee supervisors in accordance with the policies on remuneration of employees of the Company. Directors and supervisors nominated by shareholders of the Company do not receive any remuneration from the Company.

According to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors (Provisional)", the Board of Supervisors evaluates the annual duty performance of the directors through monitoring their duty performance in the ordinary course, reviewing their annual duty performance record (including but not limited to, attendance of meetings, participation of researches, provision of recommendations and the term of office in the Company), the "Annual Duty Performance Self-Evaluation Questionnaire" completed by each director and work summaries, and then reports the same to the general meeting and regulatory authorities. The Board of Directors evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released in 2015) and the "Assessment Standards of H-Share Appreciation Rights Incentive Scheme for the Senior Management".

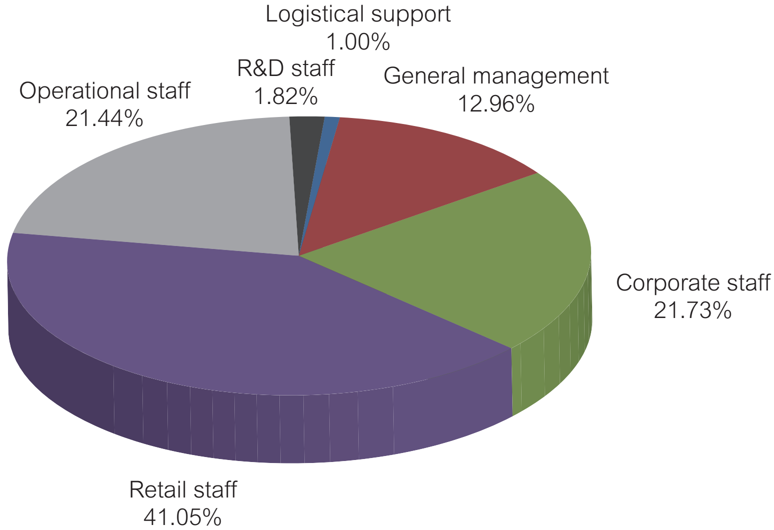
# 8.8 Employee Stock Ownership Scheme and H Share Appreciation Rights Incentive Scheme

To further improve the Company's legal entity governance structure, stabilize management and key personnel team, establish a sound mid and long-term incentive mechanism combining incentives and restraints, and promote the long-term, sustained and healthy development of the Company, 2015 First Phase Employee Stock Ownership Scheme of the Company (Draft) (by way of subscribing A Shares in Private Placement) and the relevant resolutions were considered and approved at the 2014 Annual General Meeting, the First Class Meeting of the Shareholders of A Shares for 2015 and the First Class Meeting of the Shareholders of H Shares for 2015 of the Company, and the "resolution regarding Termination of the H Share Appreciation Rights Scheme" was also approved at the aforesaid general meeting, pursuant to which it was resolved that, upon obtaining the approval for the Employee Stock Ownership Scheme at the General Meeting, the H-Share Appreciation Rights yet to be granted shall be suspended immediately; subject to the approvals and implementation of the Employee Stock Ownership Scheme, the H-Share Appreciation Rights Scheme shall be terminated officially and automatically and the grant of the share appreciation rights yet to be granted shall also be terminated, and the implementation of the related specific matters will be arranged for by the Board. Currently, the implementation of the Employee Stock Ownership Scheme is still subject to approval from the relevant regulatory authorities. For details of the abovementioned matters, please refer to the relevant announcements dated 10 April 2015, 22 April 2015 and 19 June 2015 published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

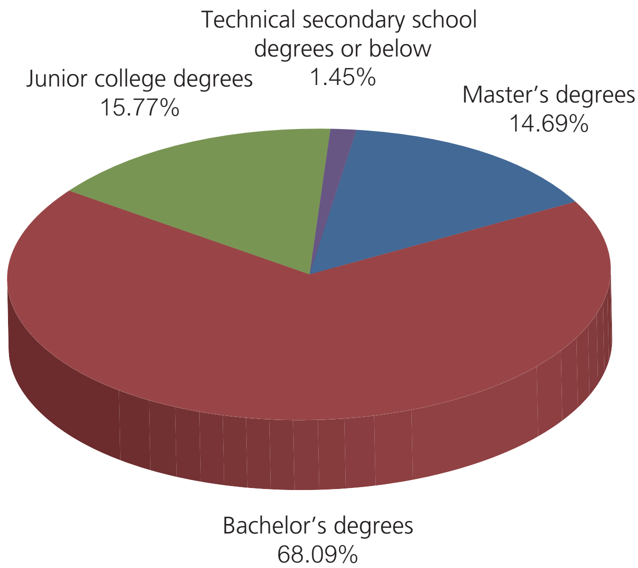
# 8.9 Information about Employees

As at 31 December 2015, the Company had 76,192 employees (including dispatched employees). In addition, the Company is responsible for payment of costs for 439 retired employees. The composition of our employees in service is set out as follows:

## (1) Professional Structure




## (2) Educational Structure



### Core technical team and key technical personnel

During the reporting period, there was no change in the personnel including the Company's core technical team and key technical staff (other than the directors, supervisors or senior management personnel) who may have significant influence on the Company's core competitiveness.

### Staff Remuneration Policy

The Company's remuneration policy is in line with its operation targets, cultural concept and values. It aims to refine and improve its incentive and restrictive mechanisms, realise its corporate goals, enhance its organisational performance and minimize its operating risk. The remuneration policy adheres to the principles of remuneration management 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 Training Program

The Company has formulated multi-level staff training programs 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 programs.

## 8.10 Branches and Representative Offices

In 2015, the Company continued to push forward expansion of its branch network. During the reporting period, five second-level branches were approved to start business, namely: Tianjin Pilot Free Trade Zone Branch, Jingdezhen Branch, Shihezi Branch, Fujian Pilot Free Trade Zone Fuzhou Branch and Liuan Branch; Nanyang Branch, Jilin Branch and Fujian Pilot Free Trade Zone Xiamen Branch (second-level) got approval to prepare for establishment; Nantong Branch got approval to upgrade to first-level branch, Panjin Sub-branch got approval to upgrade to second-level branch, Guangzhou Nansha Sub-branch got approval to upgrade and rename to Guangdong Pilot Free Trade Zone Nansha Branch. Outside Mainland China, Luxembourg Branch got approval to start business.

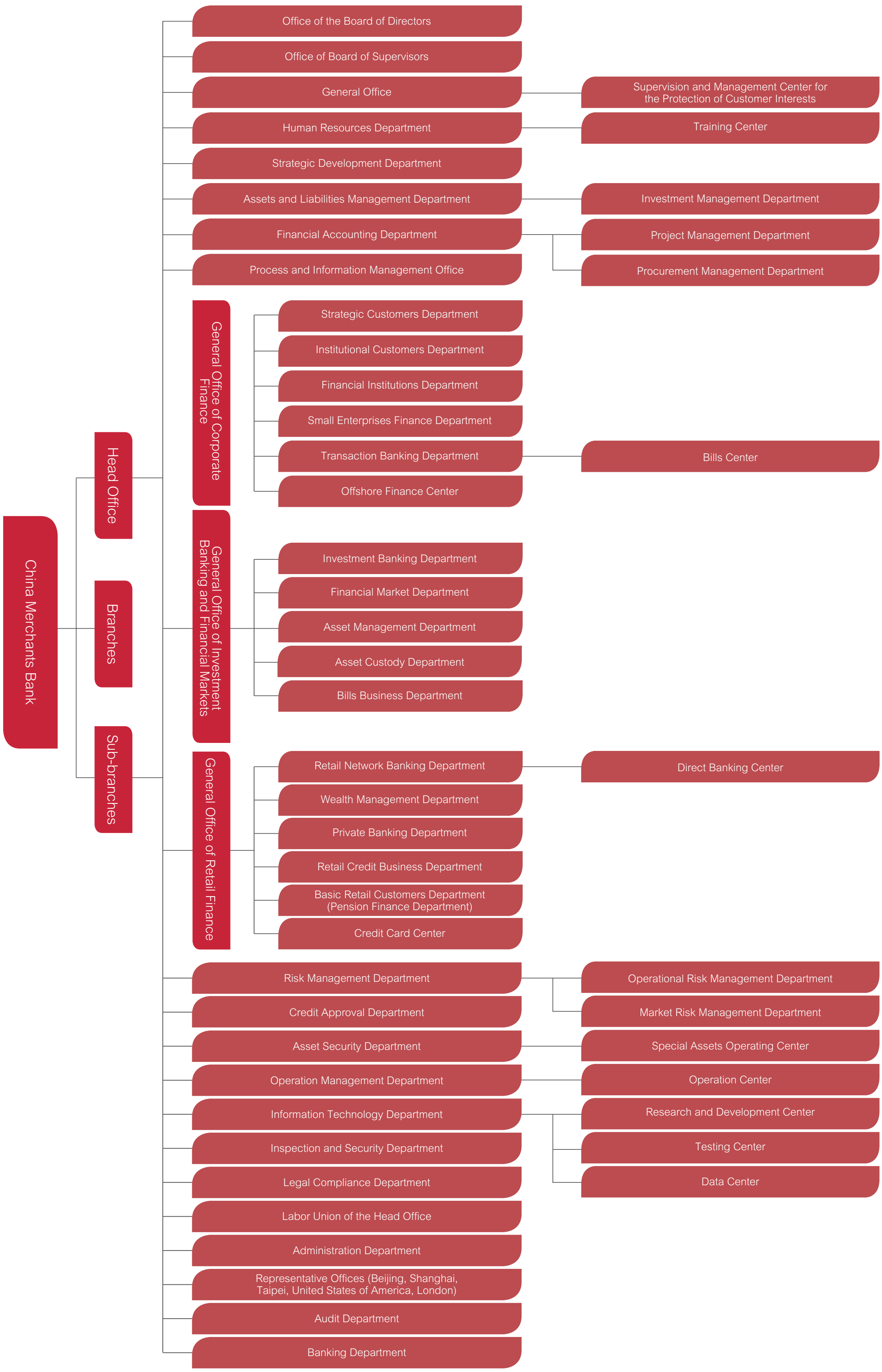
The following table sets forth the branches and representative offices as at 31 December 2015:

| Regions | Name of branches | Business address | Postal code | No. of branches | No. of Staff | Volume of assets (RMB million) |
|---|---|---|---|---|---|---|
| Head Office | Head Office | 7088 Shennan Boulevard, Shenzhen | 518040 | 1 | 5,777 | 1,880,899 |
| | Credit Card Center | 686 Lai'an Road, Pudong New District, Shanghai | 201201 | 1 | 12,311 | 310,273 |
| Yangtze River Delta | Shanghai Branch | 1088 Lujiazui Ring Road, Pudong New District, Shanghai | 200120 | 107 | 4,382 | 209,507 |
| | Shanghai Pilot Free Trade Zone Branch | Waigaoqiao Building, 6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai | 200131 | 1 | 35 | 2,835 |
| | Nanjing Branch | 1 Hanzhong Road, Nanjing | 210005 | 78 | 2,705 | 143,826 |
| | Hangzhou Branch | 23 Hangda Road, Hangzhou | 310007 | 63 | 2,503 | 142,565 |
| | Ningbo Branch | 342 Min'an East Road, Ningbo | 315042 | 32 | 1,145 | 66,621 |
| | Suzhou Branch | 36 Wansheng Street, Industrial Park, Suzhou | 215028 | 36 | 1,156 | 112,288 |
| | Wuxi Branch | 9 Xueqian Road, Wuxi | 214001 | 15 | 682 | 30,733 |
| | Wenzhou Branch | 1-3/F, Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou | 325000 | 12 | 495 | 31,486 |
| | Nantong Branch | 111 Gongnong Road, Nantong | 226007 | 13 | 412 | 19,486 |

| Regions | Name of branches | Business address | Postal code | No. of branches | No. of Staff | Volume of assets (RMB million) |
|---|---|---|---|---|---|---|
| Bohai Rim | Beijing Representative Office | 35 Jinrong Avenue, Xicheng District, Beijing | 100005 | 1 | 9 | 1 |
| | Beijing Branch | 156 Fuxingmen Nei Dajie, Beijing | 100031 | 112 | 4,740 | 241,753 |
| | Qingdao Branch | 65 Hai'er Road, Laoshan District, Qingdao | 266103 | 63 | 1,943 | 66,024 |
| | Tianjin Branch | Yujia Building, 255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin | 300204 | 41 | 1,610 | 97,268 |
| | Jinan Branch | 7 Gongqingtuan Road, Jinan | 250012 | 56 | 1,764 | 81,473 |
| | Shijiazhuang Branch | 172 Zhonghua Street South, Shijiazhuang | 050000 | 14 | 298 | 18,017 |
| | Tangshan Branch | 44 Beixin Road West, Lubei District, Tangshan | 063000 | 1 | 134 | 3,373 |
| Pearl River Delta and West Side of Taiwan Strait | Guangzhou Branch | 5 Huasui Road, Tianhe District, Guangzhou | 510620 | 66 | 2,542 | 105,542 |
| | Shenzhen Branch | 2 Shennan Road Central, Shenzhen | 518001 | 106 | 4,560 | 264,923 |
| | Fuzhou Branch | 60 Guping Road, Fuzhou | 350003 | 39 | 1,087 | 62,002 |
| | Xiamen Branch | No. 6 Complex Building, Hongtai Industrial Park, 309 Hudong Road, Siming District, Xiamen | 361001 | 30 | 907 | 47,581 |
| | Quanzhou Branch | Huangxing Building, No. 301, the middle section of Fengze Street, Quanzhou | 362000 | 16 | 450 | 25,722 |
| | Dongguan Branch | 200 Hongfu Road, Nancheng District, Dongguan | 523129 | 32 | 918 | 40,450 |
| | Foshan Branch | 12 Denghu Road East, Guicheng Street, Nanhai District, Foshan | 528200 | 33 | 1,102 | 59,943 |
| North-eastern China | Shenyang Branch | 12 Shiyiwei Road, Heping District, Shenyang | 110003 | 49 | 1,592 | 56,776 |
| | Dalian Branch | 17 Renmin Road, Zhongshan District, Dalian | 116001 | 37 | 1,251 | 55,562 |
| | Harbin Branch | 3 Zhongyang Avenue, Daoli District, Harbin | 150001 | 37 | 975 | 57,928 |
| | Changchun Branch | 9999 Renmin Avenue, Nanguan District, Changchun | 130022 | 25 | 578 | 29,991 |
| Central China | Wuhan Branch | 518 Jianshe Avenue, Wuhan | 430022 | 62 | 2,242 | 107,588 |
| | Nanchang Branch | 468 Dieshan Road, Donghu District, Nanchang | 330003 | 47 | 1,279 | 80,542 |
| | Changsha Branch | 766 Wuyi Avenue, Changsha | 410005 | 54 | 1,431 | 48,702 |
| | Hefei Branch | China Merchants Bank Mansion, 169 Funan Road, Hefei | 230061 | 42 | 1,078 | 39,864 |
| | Zhengzhou Branch | 96 Nongye Road East, Zhengzhou | 450018 | 35 | 1,124 | 54,669 |
| | Taiyuan Branch | 1 Xinjian Road South, Taiyuan | 030001 | 25 | 821 | 32,663 |
| | Haikou Branch | 1-3/F Complex Building C, Haian Yihao, 1 Shimao Road North, Haikou | 570100 | 9 | 243 | 18,071 |

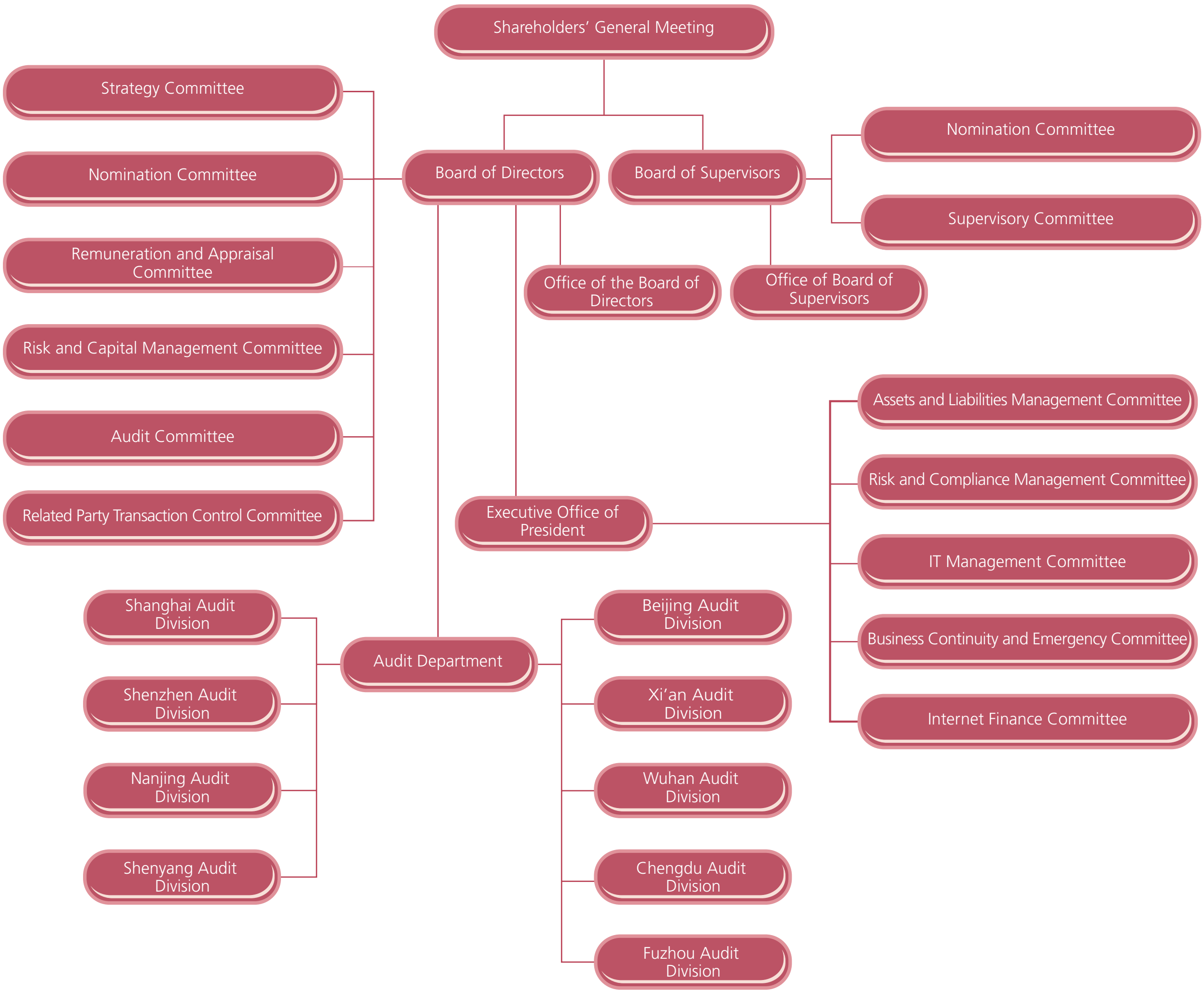
| Regions | Name of branches | Business address | Postal code | No. of branches | No. of Staff | Volume of assets (RMB million) |
|---|---|---|---|---|---|---|
| Western China | Chengdu Branch | No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu | 610000 | 49 | 1,486 | 55,864 |
| | Lanzhou Branch | 9 Qingyang Road, Chengguan District, Lanzhou | 730030 | 28 | 846 | 29,360 |
| | Xi'an Branch | 1 Gaoxin No.2 Road, Xi'an | 710001 | 60 | 1,735 | 64,080 |
| | Chongqing Branch | 88 Xingguang Road, New North District, Chongqing | 401121 | 45 | 1,490 | 74,425 |
| | Urumchi Branch | China Merchants Bank Mansion, 2 Huanghe Road, Urumchi | 830000 | 18 | 685 | 26,592 |
| | Kunming Branch | 48 Dongfeng Road East, Kunming | 650051 | 43 | 1,209 | 71,508 |
| | Hohhot Branch | 9 Chilechuan Avenue, Saihan District, Huhhot | 010040 | 18 | 665 | 26,905 |
| | Nanning Branch | 92-1 Minzu Avenue, Nanning | 530022 | 19 | 474 | 22,107 |
| | Guiyang Branch | 284 Zhonghua Road North, Yunyan District,Guiyang | 550001 | 18 | 408 | 20,200 |
| | Yinchuan Branch | 217 Xinhua Street East, Xingqing District, Yinchuan | 750000 | 12 | 307 | 14,965 |
| | Xining Branch | 4 Xinning Road, Chengxi District, Xining | 810000 | 9 | 242 | 12,860 |
| Outside Mainland China | Hong Kong Branch | 12 Harcourt Road, Central, Hong Kong | – | 1 | 166 | 90,170 |
| | USA Representative Office | 509 Madison Avenue, Suite 306, NewYork, U.S.A | – | 1 | 1 | 2 |
| | New York Branch | 535 Madison Avenue 18th Floor, NewYork, U.S.A | 1002 | 1 | 106 | 48,253 |
| | Singapore Branch | One Raffles Place, Tower 2, #32-61, Singapore | 048616 | 1 | 40 | 3,407 |
| | London Representative Office | 39 Cornhill EC3V 3ND, London, UK | – | 1 | 2 | 2 |
| | Taipei Representative Office | 333, Section 1, Jilong Road, Xinyi District, Taipei | – | 1 | 2 | 1 |
| | Luxembourg Branch | 5th floor, 4rue Jean Monnet, Luxembourg | L-2180 | 1 | 18 | 389 |
| Other assignments | | | | | 29 | – |
| Total | | – | – | 1,717 | 76,192 | 5,208,037 |

# 8.11 The Company's Organisational Structure:



# Corporate Governance

## 9.1 Corporate Governance Structure:



# 9.2 Overview of Corporate Governance

In 2015, the domestic economy entered the new normal in which the economic slowdown was mingled with profound changes in industrial structure and growth momentum. The economic downturn, interest rate liberalisation, financial disintermediation and the Internet finance confronted the banking sector with unprecedented difficulties and challenges. The Board of Directors, the Board of Supervisors and the special committees earnestly implemented the national policies and regulatory requirements, performed their duties with diligence, made decisions scientifically and operated effectively according to laws and regulations, successfully completed analysis and review of important issues of the operation and management of the Company, and guaranteed compliant operation and sustainable and steady development of the Company. Particulars of their achievements are set out as follows:

During the year, the Company convened a total of 65 important meetings at which 268 proposals were reviewed and 51 reports were delivered. Among the 65 meetings there were 2 shareholders' general meetings (31 proposals were reviewed), 14 meetings of the Board of Directors (79 proposals were reviewed and 11 reports were delivered), 11 meetings of the Board of Supervisors (43 proposals were reviewed and 5 reports were delivered), 34 meetings of the special committees of the Board of Directors (110 proposals were reviewed and 30 reports were delivered), 2 meetings of the special committees of the Board of Supervisors (3 proposals were reviewed), 1 meeting of non-executive directors (1 report was delivered) and 1 meeting of independent non-executive directors (2 proposals were reviewed and 4 reports were delivered). Seven activities including research, field study and training were organised by the Board of Directors, and 5 by the Board of Supervisors.

The Board of Directors continued to perform their duties of scientific decision-making and strategic management, continuously strengthened risk management and capital management, made scientific decisions after review and deliberation of important issues including results and distribution of profits, formulation and implementation of business strategies, changes of directors and senior management, risk and capital management, remuneration and appraisal, financial supervision and internal control, structural adjustment, material external investments and material related party transactions so as to guarantee compliant operation and steady development of the Company. During the year, the special committees of the Board of Directors diligently performed their duties and made full advantage of their expertise and research capability. The matters under their review covered most of the resolutions proposed to the Board of Directors, thus enhancing the efficiency and scientific decision-making ability of the Board of Directors, and promoted the healthy development of the businesses of the Company.

Through their presence at meetings of the Board of Directors and the special committees of the Board of Directors and the Shareholders' General Meetings, the Board of Supervisors supervised the convening, reviewing and voting procedures of the meetings of the Board of Directors and its special committees and the Shareholders' General Meetings, as well as the performance of duties by the Directors, and made sure they were compliant with the rules.

For details of information disclosure and management of investor relations of the Company, please refer to the section headed "Communications with shareholders" of this report.

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 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 awards, including the "Top Ten Excellent Board of Directors of Companies Listed on the Main Board in 2015" selected by 21st Century Media; ranking first in the "Top Ten of Investors' Most Respected 100 Listed Companies in China" selected by the Association of Chinese Listed Companies; the "Silver Award for Composition of Annual Reports in Greater China" in the ARC International Annual Report Competition known as Annual Report Oscar; and the "Silver Award for Outstanding Annual Reports of Banks" selected by League of American Communications Professionals LLC (LACP) in 2014.

# 9.3 Information about General Meetings

During the reporting period, the Company convened 2 shareholders' general meetings in Shenzhen, namely, the 2014 Annual General Meeting, the First Class Meeting of the Shareholders of A Shares for 2015 and the First Class Meeting of the Shareholders of H Shares for 2015 held on 19 June 2015 and the 2015 First Extraordinary General Meeting, the Second Class Meeting of the Shareholders of A Shares for 2015 and the Second Class Meeting of the Shareholders of H Shares for 2015 held on 25 September 2015. For details of the resolutions, please refer to the documents on shareholders' general meetings published on the websites of Shanghai Stock Exchange and the Company as well as the circulars regarding the shareholders' general meetings published on the website of Hong Kong Stock Exchange. The notifying, gathering, convening and voting procedures of the meetings complied with relevant requirements of the Company Law, 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 and on China Securities Journal, Shanghai Securities News and Securities Times. For more information on the attendance of directors at shareholders' general meetings, please refer to the section headed "Attendance of Directors at Relevant Meetings" of this report.

# 9.4 Board of Directors

The Board of Directors is the core of our corporate governance. The Company implements a system under which the President assumes full responsibility under the leadership of the Board of Directors, which in turn is an independent policy-making body of the Company, responsible for the execution of resolutions passed by the general meetings; devising the Company's major principles, policies and development plans; deciding on the Company's operating plans, investment proposals and the establishment of internal management organs; preparing annual financial budgets, final accounts and profit appropriation plans; and appointing members of senior management. The Company's management team has discretionary powers in terms of operation, and the Board of Directors would not intervene in any specific matters in the Company's daily operation and management.

In institution development and actual operation, the Board of Directors places great emphasis on the "Unity of Form and Spirit". With respect to the development of organisational structure, the Board of Directors facilitates scientific and reasonable decision-making through the establishment of a diversified director structure, and improves the decision-making ability and operational efficiency through promoting the effective operation of special committees. With respect to the operation, the Board of Directors focuses on key issues, directions, and strategies. The Board of Directors continues to strengthen the scientific concept of development to seek balance, health and sustainability; ensures the Company's healthy, sustainable and sound development through effective management of its strategy, risks, capital, remuneration, audit and related party transactions, etc., thus providing a solid basis for the Company to enhance its operation and management capabilities.

## 9.4.1 Composition of the Board of Directors

As at 31 December 2015, the Board of Directors of the Company had 16 members, including eight non-executive directors, two executive directors, and six independent non-executive directors. All eight non-executive directors come from large state-owned enterprises where they hold key positions such as the chairman of the board of directors, general manager or deputy general manager and chief financial officer. They have extensive experience in management, finance and accounting fields. All two executive directors have extensive experience in financial management. Among the six independent non-executive directors, two are renowned experts in finance and accounting, two are renowned experts in finance, management and capital market, and two are financial experts and investment bankers with international vision, and they all have extensive knowledge of the development of domestic and overseas banking industry, with two independent non-executive directors from Hong Kong who are proficient in international accounting standards and the requirements of Hong Kong capital market. Currently, the Board of Directors of the Company has four female directors who, together with other directors of the Company, offer 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. The Company has had in place 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 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 VIII of this report. To comply with the Hong Kong Listing Rules, the independent non-executive directors have been clearly identified in all corporate communications of the Company which disclose their names.

## 9.4.2 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 shareholders at general meetings, and the term of office for a director shall be three years. The term of office for a director of the Company shall commence from the date on which the approval from the banking regulatory authority of the State Council is obtained. A director is eligible for re-election upon the expiry of his/her current term of office. The director's term of office shall not be terminated without any justification at a general meeting before expiry of his/her term.

A director may be removed by an ordinary resolution at a 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 will not be affected).

The term of office for independent non-executive directors of the Company shall be the same as that for other directors of the Company. The term of office for an independent non-executive director of the Company shall comply with the relevant laws and requirements of the governing authority.

The procedures for appointment, re-election and removal of directors of the Company are set out in the Articles of Association of the Company. The Nomination Committee of the Company carefully considers the qualifications and experience of every candidate for director and recommends suitable candidates to the Board of Directors. Upon passing the candidate nomination proposal, the Board of Directors proposes election of related candidates at a general meeting and proposes the relevant resolution at a general meeting for consideration and approval. Except the independent non-executive directors, who will be treated individually due to the restriction of their terms of office, other new directors shall, upon expiry of the current session of the Board of Directors (the term of office for each session is three years), be subject to re-election at the general meeting together with other members of the Board.

## 9.4.3 Responsibilities of directors

During the reporting period, all directors of the Company cautiously, earnestly and diligently exercised their rights as a director granted by the Company and by domestic and overseas regulatory authorities, 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, their attendance of meetings was satisfactory, with the attendance rates of each director at 92% or above.

The independent non-executive directors of the Company have presented their professional advice on the resolutions reviewed by the Board of Directors, including offering independent written opinions on significant matters regarding the profit appropriation preliminary plan, major related party transactions, external guarantees, the appointment and removal of directors and senior management and the remuneration for senior management. In addition, for the six special committees under the Board, the independent non-executive directors of the Company made full advantage of their professional edge, provided professional and independent advice regarding corporate governance and operation management of the Company, and thereby ensured the scientific decision-making of the Board of Directors.

The Board of Directors of the Company reviewed its work during the reporting period, for which it also consulted the senior management for their opinions and took consideration of those opinions of the Board of Supervisors. The Board of Directors believes that it has effectively performed its duties and safeguarded the interests of the Company and shareholders during the reporting period. The Company is of the opinion that all the directors have devoted sufficient time to perform their duties.

The Company also pays high attention 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 laws and the regulatory requirements of the CBRC, the CSRC, Shanghai Stock Exchange, Hong Kong Stock Exchange and the Articles of Association of the Company. The Company has renewed the "insurance for liabilities of directors and senior management" for all its directors.

During the reporting period, the Company initiated annual appraisal of the performance of directors performed by the Board of Supervisors, and annual report and cross-appraisal performed by independent non-executive directors. The appraisal results have been reported to the general meeting.

## 9.4.4 Chairman of the Board and the President

The positions of the chairman of the Board of Directors and the president of the Company have been taken up 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, chairing board meetings, ensuring that all directors are updated regarding issues arising at board meetings, managing the operations 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. To enable the Board of Directors to discuss all important and relevant matters timely, the Chairman and senior management worked together to ensure that the directors duly receive appropriate, complete and reliable information for their consideration and review. Mr. Tian Huiyu serves as the President, responsible for the business operations and implementation of the strategic and business plans of the Company.

## 9.4.5 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 by special committees under the Board of Directors and at the shareholders' general meetings held in 2015.

| 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 Transaction Control Committee | Shareholders' General Meeting |
|---|---|---|---|---|---|---|---|---|
| | Actual times of attendance/Required times of attendance | | | | | | | |
| **Non-executive directors** | | | | | | | | |
| Li Jianhong | 14/14 | 3/3 | 1/1 | / | / | / | / | 1/2 |
| Ma Zehua | 12/14 | 3/3 | / | / | / | / | / | 0/2 |
| Li Xiaopeng | 13/14 | 3/3 | / | / | / | / | / | 0/2 |
| Li Yinquan | 13/14 | / | / | 5/6 | / | / | / | 0/2 |
| Sun Yueying | 14/14 | / | / | / | 8/8 | 9/9 | / | 2/2 |
| Fu Junyuan (resigned) | 10/12 | 3/3 | / | 4/4 | / | / | / | 1/1 |
| Fu Gangfeng | 14/14 | / | / | / | / | 9/9 | 7/7 | 2/2 |
| Hong Xiaoyuan | 14/14 | 2/2 | / | 2/2 | 8/8 | / | / | 2/2 |
| Su Min | 14/14 | 3/3 | / | / | 8/8 | / | / | 1/2 |
| **Executive directors** | | | | | | | | |
| Tian Huiyu | 14/14 | 3/3 | 1/1 | / | / | / | / | 2/2 |
| Zhang Guanghua (resigned) | 8/8 | 1/1 | / | / | 4/4 | / | / | 1/1 |
| Li Hao | 13/14 | 2/2 | / | 2/2 | 5/3 | 1/1 | 7/7 | 2/2 |
| **Independent non-executive directors** | | | | | | | | |
| Leung Kam Chung, Antony | 13/14 | / | 1/1 | 5/6 | 8/8 | 1/1 | / | 2/2 |
| Wong Kwai Lam | 13/14 | / | / | 6/6 | / | 9/9 | 1/1 | 2/2 |
| Pan Chengwei | 14/14 | / | 1/1 | / | / | 9/9 | 7/7 | 2/2 |
| Pan Yingli | 12/14 | / | 1/1 | 5/6 | / | 2/2 | / | 1/2 |
| Guo Xuemeng | 14/14 | / | / | / | / | 9/9 | 7/7 | 2/2 |
| Zhaojun | 14/14 | / | / | / | 8/8 | 2/2 | 7/7 | 2/2 |

Notes: 1. During the reporting period, the Board of Directors held a total of 14 meetings, of which six were on-site and telephone meetings and eight were meetings convened and voted by correspondence.

2. Actual number of attendance does not include attendance by proxy. The above directors who did not attend the meetings in person had appointed other directors to attend such meetings on their behalf.

## 9.4.6 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 enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2015.

The Company has also established guidelines for relevant employees in respect of their dealings in securities of the Company, which are no less exacting than the Model Code. The Company is not aware of any violation against the mentioned guidelines by relevant employees.

## 9.4.7 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 relevant requirements of the CBRC, the CSRC, Shanghai Stock Exchange and the Hong Kong Listing Rules. All six independent non-executive directors of the Company are not involved in the circumstances set out in Rule 3.13 of 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 Hong Kong Listing Rules. Therefore, the Company is of the opinion that all independent non-executive directors have complied with the requirement of independence set out in Hong Kong Listing Rules. The majority of the members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related Party Transaction Control 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 meetings held by the Board of Directors and the special committees, actively expressing their opinions and attending to the interests and requests of small and medium shareholders.

During the reporting period, the independent non-executive directors expressed their independent opinions on material issues including change of directors, appointment and remuneration of the senior management, profit appropriation and related party transactions of the Company. They made no objection to the resolutions of the Board of Directors and others.

According to the "Rules Governing Independent Directors' Work on Annual Reports" of the Company, the independent non-executive directors of the Company performed the following duties in preparing and reviewing the annual report for the year:

1. The independent non-executive directors listened to reports on the performance of the Company in 2015 made by the management and Chief Financial Officer. The independent non-executive directors believed that the reports made by the management of the Company had fully and objectively reflected the operations of the Company in 2015 as well as the progress of significant matters. They recognised and were satisfied with the work performed by the management team and the results achieved in 2015.

2. The independent non-executive directors reviewed the work plan for preparing the annual report and the unaudited financial statements of the Company.

3. Prior to the annual audit conducted by the accounting firm in charge of the annual audit, the independent non-executive directors discussed with the certified public accountants in respect of the audit team, audit schedule, audit plan, key concerns, communication mechanism and quality control.

4. After receiving the initial audit opinions from the auditors, the independent non-executive directors discussed with the auditors in respect of major matters and prepared their written opinions.

5. The independent non-executive directors reviewed the procedures for convening Board meetings in the year, the decision-making procedures for matters on the agenda and the adequacy of information for making reasonable and accurate judgment.

# 9.5 Special Committees of 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 Transaction Control Committee.

In 2015, all 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 34 meetings to study and review 110 significant issues, including operating results and profit appropriation, strategies implementation, change of directors and senior management, risk and capital management, remuneration and appraisal, financial supervision and internal control, significant external investments, significant related party transactions, and reported their audit opinions and advices to the Board of Directors by submitting meeting minutes and holding on-site meetings, hence effectively assisting the Board of Directors to make scientific decisions.

The composition and duties of the six special committees as well as their work in 2015 are summarized as follows:

## 9.5.1 Strategy Committee

The Strategy Committee consists of equity holding directors and directors from senior management. The current members of the Strategy Committee are Li Jianhong (Chairman), Ma Zehua, Li Xiaopeng, Su Min (all being non-executive directors) and Tian Huiyu (an executive director). It is mainly responsible for studying the medium-to-long term development strategies and significant investment decisions of the Bank and making relevant proposals herewith.

Main authorities and duties:

(1) formulate the operational goals and medium-to-long term development strategies of the Bank, and make an overall assessment on strategic risks;

(2) consider material investment and financing plans and make proposals to the Board of Directors;

(3) supervise and review the implementation of the annual operational and investment plans;

(4) evaluate and monitor the implementation of Board resolutions; and

(5) make recommendations and proposals on important issues for discussion and determination by the Board of Directors.

In 2015, the Strategy Committee considered the Financial Budget Report for the year 2015, the Proposal of the Profit Appropriation for the year 2014, the Resolution on the General Mandate to Issue Shares and/or Share Options, the Resolution on Authorising Management to Consider and Approve Equity Investment, the Resolution on Establishment of Sydney Branch and China Merchants Bank (Luxembourg) Co., Ltd. (招商銀行（盧森堡）有限公司), the Assessment Report on Strategies Implementation of China Merchants Bank in 2014 and the Resolution or Report on Implementation of the Operating Plan of China Merchants Bank in the first half of 2015.

## 9.5.2 Nomination Committee

The majority of the Nomination Committee are independent non-executive directors, the chairman as well. The current members of the Nomination Committee include Leung Kam Chung, Antony (Chairman), Pan Chengwei, Pan Yingli (all being independent non-executive directors), Li Jianhong (a non-executive director) and Tian Huiyu (an executive director). It is mainly responsible for selecting candidates for directors and senior management of the Company, determining the standards and procedures for such selection and making relevant proposals.

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 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;

(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 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 task delegated by the Board of Directors.

In 2015, the Nomination Committee considered and passed the Resolution on Nomination of Mr. Zhang Feng as a Non-executive Director.

## 9.5.3 Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee is composed of a majority of the independent non-executive directors with one serving as the chairman. The members of the Nomination Committee currently include Wong Kwai Lam (Chairman), Leung Kam Chung, Antony, Pan Yingli (all being independent non-executive directors) and Li Yinquan (a non-executive director). It is responsible mainly for formulating the appraisal standards for directors and senior management of the Bank and conducting appraisals on them, as well as formulating and reviewing the remuneration policies and plans for directors and senior management of the Company. It is accountable to the Board of Directors.

Main authorities and duties:

(1) study the appraisal standards for directors and senior management, and conduct appraisals and make recommendations based on the actual conditions of the Bank;

(2) 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;

(3) review the regulations and policies in respect of remuneration of the Bank; and

(4) any other task delegated by the Board of Directors.

In 2015, the Remuneration and Appraisal Committee considered and passed the Resolution on 2015 First Phase Employee Stock Ownership Scheme, the Report on 2014 Final Accounts of Staff Costs of China Merchants Bank, the Resolution on Amendments to Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd., the Resolution on Approving the Performance Appraisal of H Share Appreciation Rights of China Merchants Bank in 2015 and the Resolution on Adjusting the Price of H Share Appreciation Rights, and listened to the verification report on total staff costs, as well as the remuneration and performance-linked bonus for senior management in 2014 issued by KPMG.

## 9.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee currently are Hong Xiaoyuan (Chairman), Sun Yueying, Su Min (all being non-executive directors), Li Hao (an executive director) and Leung Kam Chung, Antony and Zhao Jun (both being independent non-executive directors). It is mainly responsible for control, management, supervision and assessment of risks of the Bank.

Main authorities and duties:

(1) 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;

(2) make regular assessment on the risk policies, management status, risk-withstanding ability and capital status of the Bank;

(3) perform relevant duties under the advanced capital measurement method pursuant to the authorisation given by the Board of Directors;

(4) submit proposals on perfecting the management of risks and capital of the Bank;

(5) arrange and instruct risk prevention works in accordance with the authorisation of the Board of Directors; and

(6) any other task delegated by the Board of Directors.

In 2015, the Risk and Capital Management Committee considered and passed the Quarterly Reports on Comprehensive Risk of Previous Year and Current Year, the Quarterly Report on Weakness and Risks Revealed during the Audit Process in Previous and Current Years, the Report on Risk Appetite Execution in the First Half of the Year, the Report on Write-offs of Doubtful Debts and Accountability Verification and Punishment, the Audit Report on Internal Credit Risk Assessment System, the Report for Case Prevention, the Assessment Report on Internal Capital Adequacy, the Report on Outsource Management, the Report on Business Continuity, the Report on the Work Summary of Consolidation Management and Implementation of Verification Policies, the Major Resolutions on Profit Appropriation, Write-off of Large-amount Doubtful Loans, Capital Increase and Restructuring of CMBIC, Capital Increase to CIGNA & CMB Life, Revising Certain Risk Preference Indicators and Risk Management and Appraisal Indicators, Amending the Scope of Outsource Services and Extension of the Validity Period for the Issuance of Financial Bonds; listened to the Report on Macro-Economic Stress Tests on Credit Risk and the Report on Risk Pre-warning System of China Merchants Bank; and formulated or revised a number of systems and measures in respect of risk and capital management, including the "Measures for Credit Risk Portfolio Management of China Merchants Bank", the "Measures for Identification, Appraisal and Management of Significant Risks of China Merchants Bank", the "Measures for Consolidation Management of China Merchants Bank", the "Measures for Equity Investment and Management of China Merchants Bank", the "Regulations on Capital Management of China Merchants Bank", the "Anti-money Laundering Policy of China Merchants Bank", the "Measures for Management of Leverage Ratios of China Merchants Bank", the "Compliance Policies of the Group", the "Regulations on Compliance Management of China Merchants Bank (3rd Edition)", the "Administrative Measures for Information Disclosure of Capital Adequacy of China Merchants Bank (3rd Edition)", the "Overall Policy on Stress Tests of China Merchants Bank", the "Administrative Measures for Appraisal Procedures of Internal Capital Adequacy of China Merchants Bank", the "Policies on Measurement Model Verification of China Merchants Bank", the "Administrative Measures for Development of Internal Rating for Non-retail Risk Exposure and Quantitative Risk Parameters in Respect of Internal Credit Risk Rating System of China Merchants Bank (3rd Edition)" and the "Administrative Measures for Retail Risk Exposure Pool and Quantitative Risk Parameters in Respect of Internal Credit Risk Rating System of China Merchants Bank".

### 9.5.5 Audit Committee

The majority of members and the chairman of the Audit Committee are independent non-executive directors. The current members of the Audit Committee are Guo Xuemeng (Chairman), Wong Kwai Lam, Pan Chengwei (all being independent non-executive directors), Fu Gangfeng and Sun Yueying (both being non-executive directors). It was verified that no member of the Audit Committee has ever served as a partner of the current auditors of the Company. The Audit Committee is mainly responsible for communication, supervision and verification of internal and external auditing issues of the Bank.

Main authorities and duties:

(1) propose the appointment or replacement of external auditors;

(2) monitor the internal audit system of the Bank and its implementation, and evaluate the work procedures and work effectiveness of its internal audit department;

(3) coordinate the communication between internal auditors and external auditors;

(4) 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;

(5) examine the internal control system of the Bank, and make recommendations for improvement in the internal control of the Bank;

(6) 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;

(7) examine the accounting policies, financial reporting procedures and financial position of the Bank; and

(8) any other task delegated by the Board of Directors.

In 2015, the Audit Committee considered and approved a number of proposals on the regular reports of the Company, the internal control assessment report, the annual audit plan and audit conclusions of the accounting firm, appointment of the accounting firm and performance assessment results concluded by the Audit Department in 2014, and listened to the reports on audit work summary, quarterly internal audit work and working plans for 2014 issued by KPMG.

According to "Work Procedures on Annual Reports for Audit Committee of the Board of Directors" adopted by the Company, the Audit Committee of the Board of Directors of the Company performed the following duties in preparing and reviewing the report for 2015:

1. Before the auditors commenced their annual audit, the Audit Committee considered and discussed the audit plan of the accounting firm for 2015, including the composition of the auditing team, schedule and programme of audit, the priorities of audit work, communication mechanism and quality control. They also reviewed the plan for preparing the annual report 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 accounting firm in charge of annual audit, the Audit Committee reviewed the management's report on the operations of the Company for 2015. The Audit Committee exchanged opinions on significant matters and the audit progress with the accounting firm in charge of annual audit, and reviewed the financial statements of the Company. The Audit Committee then formed written opinions for the above issues.

3. Before the annual meeting of the Board of Directors was held, the Audit Committee voted on and prepared a resolution on the Company's Annual Report for 2015 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit work performed by the external auditors in respect of the Company's financial statements for the year 2015 to the Board of Directors.

### 9.5.6 Related Party Transaction Control Committee

The majority of members and the chairman of Related Party Transaction Control Committee are independent non-executive directors. The current members of the Related Party Transaction Control Committee are Pan Chengwei (Chairman), Guo Xuemeng, Zhao Jun (all being independent non-executive directors), Fu Gangfeng (a non-executive director) and Li Hao (an executive director). It is mainly responsible for inspection, supervision and review of related party transactions of the Company.

Main authorities and duties:

(1) identify connected persons of the Company according to relevant laws and regulations;

(2) inspect, supervise and review major related party transactions and continuing related party transactions, and to control the risks associated with related party transactions;

(3) 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

(4) review the announcements on related party transactions of the Bank.

In 2015, the Related Party Transaction Control Committee considered and passed the resolutions regarding various issues including the report on the management of related party transactions of the Company for 2014, the special audit report on the related party transactions of the Company for 2014, stock ownership scheme in respect of related party transactions, and the major related party transaction projects with China Shipping (Group) Limited and its subsidiaries and Anbang Property & Casualty Insurance Company Ltd., and the upper limit on the continuing related party transactions for 2015 to 2017 with Anbang Insurance Group and CM Securities.

## 9.6 Corporate Governance Functions

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

- formulating and inspecting the policies and practices on corporate governance of the Company and making certain amendments as it deems necessary, to ensure the validity of those policies and practices;
- inspecting and supervising the trainings and continuing professional development of directors and senior management;
- inspecting and supervising the policies and practices of the Company for compliance with laws and regulatory requirements;
- formulating, reviewing and supervising the Code of Conduct and the Compliance Handbook applicable to directors and employees; and
- reviewing the compliance of the Company with the Code of Corporate Governance and the disclosures in the Report of Corporate Governance.

# 9.7 Board of Supervisors

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

## 9.7.1 Composition of the Board of Supervisors

The Board of Supervisors of the Company consists of 9 members, including 3 shareholder supervisors, 3 employee supervisors and 3 external supervisors. The number of employee supervisors and external supervisors each accounts for not less than one-third of the members of the Board of Supervisors. The 3 shareholder supervisors are from large state-owned enterprises where they serve as key responsible persons and have extensive experience in business management and professional knowledge in finance and accounting; the 3 employee supervisors have long participated in banking operation and administration, and thus accumulated rich professional experience in finance; and the 3 external supervisors have been engaged in corporate governance and financial management of large state-owned enterprises and legal affairs, and have thus accumulated extensive experience in those fields. The composition of the Board of Supervisors of the Company has adequate expertise and independence which ensures the effective supervision by the Board of Supervisors.

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

## 9.7.2 How the Board of Supervisors performs its supervisory duties

The Board of Supervisors discharges its supervisory duties primarily by: holding regular meetings, attending shareholders' general meetings, board meetings and special committee meetings, attending various meetings on operation and management held by the senior management; reviewing various documents submitted by the Company, reviewing work reports and specific reports of the senior management, conducting exchanges and discussions, carrying out special investigations and surveys at domestic and overseas branches (on a collective or separate basis) of the Company, performing off-site investigation and having talks with directors and the senior management over their performance of duties, etc. By doing so, the Board of Supervisors comprehensively monitors the operation and management, risk management and internal control of the Company as well as duty performance of the directors and the senior management, and provides constructive and specific advice and recommendation on operating management and supervisory opinions.

## 9.7.3 Duty performance of the Board of Supervisors during the reporting period

During the reporting period, the Board of Supervisors convened 11 meetings, of which 5 were on-site meetings and 6 were meetings convened and voted by correspondence. 43 proposals regarding strategic planning, business operations, financial activities, internal control, risk management, corporate governance and evaluation of the duty performance of the directors and supervisors were considered, and a number of special reports involving strategic management, internal capital adequacy assessment, internal audit, write-offs of doubtful debts and the prevention and control of crimes were reviewed at these meetings.

In 2015, the Company convened 2 shareholders' general meetings and 6 on-site board meetings. Supervisors attended the general meetings and were present at all the on-site board meetings, and supervised compliance with the relevant laws and regulations, voting procedures of the general meetings and board meetings, the directors' attendance, statements made and voting at the general meetings and board meetings, respectively.

During the reporting period, all 3 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 meetings of the Board of Directors or any of its special committee, participating in the Board of Supervisors' investigations and surveys conducted (on a collective or separate basis) at branch level, proactively familiarizing themselves with the operations and management of the Company, and giving opinions and suggestions on significant matters. During the adjournment of the Board of Directors and Board of Supervisors, the external supervisors were able to review various documents and reports of the Company and exchange opinions with the Board of Directors and senior management in a timely manner, thereby playing an active role in performing their supervisory duties.

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

## 9.7.4 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. The chairman of the Nomination Committee and the Supervisory Committee is served by an external supervisor respectively.

### The Nomination Committee under the Board of Supervisors

The members of the Nomination Committee of the Ninth Session of the Board of Supervisors were Pan Ji (chairman), Zhu Genlin, Dong Xiande and Huang Dan. 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 duty performance of the members of the Board of Directors, Board of Supervisors and senior management, 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 members are scientific and reasonable.

In 2015, the Nomination Committee under the Board of Supervisors convened 1 meeting where proposals regarding the evaluation report on duty performance of the directors in 2014 and the evaluation report on duty performance of the supervisors in 2014 were reviewed and considered.

### The Supervisory Committee under the Board of Supervisors

The members of the Supervisory Committee of the Ninth Session of the Board of Supervisors were Jin Qingjun (chairman), Fu Junyuan, Liu Zhengxi and Xiong Kai. 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 Bank and conduct relevant examinations; to supervise the adoption by the Board of Directors of prudent business philosophy and value standards and formulate suitable development strategies in line with the actual situations of the Bank; to conduct supervision and assessment on the important financial decisions of the Board of Directors and the senior management members 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 the performance of their duties; to formulate the specific plans for reviewing the operation decisions, internal control and risk management of the Company under the authorization of the Board of Supervisors when necessary; to formulate the plans for conducting resignation audit on directors, president and other senior management members when necessary.

In 2015, the Supervisory Committee under the Board of Supervisors convened 1 meeting where the audit opinions on resignation of Mr. Han Mingzhi, Chairman of the Board of Supervisors of the Company were reviewed and considered. In addition, the 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 of the Board of Directors. They also reviewed the consideration and discussion on the financial decisions, risk management, internal management and capital management of the Company, and supervised the duty performance of the directors and offered comments and suggestions on some issues.

## 9.8 Trainings and Investigations/Surveys Conducted by Directors and Supervisors During the Reporting Period

During the reporting period, the Company's Board of Directors and Board of Supervisors organised 12 investigations/surveys and training activities. The Chairman of the Board of Supervisors conducted investigations/surveys on 11 operating entities of the Company, leading to continuous improvement in the performance and effectiveness of decision-making and supervision of Directors and Supervisors.

During the reporting period, the Company organised Directors and Supervisors who were newly appointed to participate in job-focused training sessions provided by relevant regulatory authorities and authorised institutions as well as banking management training. The purpose of which is to enable them to obtain proper understanding of the operation and businesses of the Company and its duties under relevant laws, regulations and rules. 7 investigations/surveys/visits by Directors were organised which involved visiting the Head Office departments, various branches and sub-branches and subsidiaries to get familiar with business operations of the Head Office, branches and subsidiaries, the implementation of the transformation strategies of "Asset-light Banking" and "One Body with Two Wings", risk management, as well as problems and challenges encountered.

During the reporting period, the Board of Supervisors set a more practicable goal and conducted its investigations/ surveys on certain major issues more effectively in terms of frequency, width and depth, which included the reform of systems and mechanism across the Bank, the implementation of the "One Body with Two Wings" strategy and the building of an asset-light bank, internal control and compliance and risk prevention. The Board of Supervisors organised five investigations/ surveys on a collectively basis during the year, of which four were conducted domestically and one was conducted overseas with a total of 18 branches and affiliated entities involved. The Board of Supervisors, based on those investigations/ surveys, put forward a number of targeted and practical proposals regarding implementation of system reform, reinforcement of risk prevention, improvement of refined management, enhancement of employee care and consolidation of team building. Based on the actual situation, the Board of Supervisors classified the investigation/survey results so as to effectively pass them in the form of investigation/ survey reports and work briefs to the Board of Directors, senior management, each department and branch, and reported the same to the CBRC, thus increasing the scope of application of such investigation/ survey results and fully exerting its supervisory duty.

The Company also provided its directors with the latest information and relevant trainings on the Hong Kong Listing Rules and other applicable regulatory requirements to ensure that they follow and better understand good corporate governance, and took a number of approaches such as the provision of special reports and reference information to improve and update their knowledge and skills.

According to the training records for 2015 kept by the Company for Directors, the status of relevant trainings is as follows:

| | Provision of Information and Scope of Trainings | | |
|---|---|---|---|
| Name of Directors | Corporate Governance | Policies and Regulations | Business/ Management |
| **Non-executive directors** | | | |
| Li Jianhong | √ | √ | √ |
| Ma Zehua | √ | √ | √ |
| Li Xiaopeng | √ | √ | √ |
| Li Yinquan | √ | √ | √ |
| Sun Yueying | √ | √ | √ |
| Fu Junyuan (resigned) | √ | √ | √ |
| Fu Gangfeng | √ | √ | √ |
| Hong Xiaoyuan | √ | √ | √ |
| Su Min | √ | √ | √ |
| **Executive directors** | | | |
| Tian Huiyu | √ | √ | √ |
| Zhang Guanghua (resigned) | √ | √ | √ |
| Li Hao | √ | √ | √ |
| **Independent non-executive directors** | | | |
| Leung Kam Chung, Antony | √ | √ | √ |
| Wong Kwai Lam | √ | √ | √ |
| Pan Chengwei | √ | √ | √ |
| Pan Yingli | √ | √ | √ |
| Guo Xuemeng | √ | √ | √ |
| Zhao Jun | √ | √ | √ |

# 9.9 Company Secretary under Hong Kong Listing Rules

Mr. Xu Shiqing, Secretary of the Board of Directors of the Company, and Ms. Seng Sze Ka Mee, Natalia of Tricor Services Limited, an external services provider, are both the joint company secretaries of the Company under Hong Kong Listing Rules. Mr. Xu Shiqing is the major contact person of the Company on internal issues.

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

# 9.10 Misconduct Reporting and Monitoring

In 2015, the Company had no material internal malignant cases or external malignant cases or incidents involving theft, robbery or material safety issues.

# 9.11 Communications with Shareholders

## Investor Relations

In 2015, adhering to the basic investor-oriented principle of improving investor experience and increasing efficiency, the Company maintained continuous and positive communication with various investors and analysts in the capital markets with an innovative, professional, open and positive attitude. We delivered the strategies, results of operation, business highlights and investment value of the Company to investors across the world in various forms in a timely, comprehensive and objective manner. During the reporting period, the Company held two results announcement and analyst meetings, one press conference and one global roadshow for annual results and one domestic roadshow for the interim results. The Company made arrangement for reception of 100 visits made by 248 domestic and foreign institutional investors and investment banks, brokerage analysts; attended investor conferences held by 32 major domestic and foreign investment banks and brokerages, and conducted effective communication with a total of 654 institutional investors; answered 270 calls from investors, handled 502 online messages from investors. These measures have effectively satisfied the needs of domestic and foreign investors and analysts to communicate with the Company.

Having perfectly completed all its tasks for the year, the investor relations management team of the Company forged ahead with implementing the transformation strategies of "Asset-light Banking" and "One Body with Two Wings". They organised a series of interactions and communications in respect of different themes on the capital market, and communicated the suggestions and opinions on the capital market to the management in a timely manner, better reflecting the role of investor relations management in facilitating communications between the management and the capital market. In 2015, in the context of continuous business transformation in the banking sector, the Company maintained its leading position in market valuation among its peers, showing certain effect of its market value management.

During the reporting period, with good corporate governance, clear and leading development strategies and outstanding operating results, as well as the effective guidance and communication associated with the capital market, the Company stood out from 2,800 listed companies, and ranked first in "Top Ten of Investors' Most Respected 100 Listed Companies in China" selected by the Association of Chinese Listed Companies, receiving high recognition and good rating from the capital market.

## Information Disclosure

The information disclosure of the Company is based on its sound corporate governance, well-developed internal control and perfect information disclosure system, and can ensure investors' access to information in a timely, accurate and equal manner by leveraging on good corporate governance and internal control.

During the reporting period, the Company has disclosed material information in a true, accurate, complete, timely and fair manner in strict accordance with the requirements of relevant laws and regulations governing information disclosure. It has issued more than 380 disclosure documents in aggregate on Shanghai Stock Exchange and Hong Kong Stock Exchange, including periodic reports, interim announcements, and corporate governance documents, circulars to shareholders, proxy forms and reply slips in a total size of more than 2.40 million words. Apart from fulfilling its statutory obligation of information disclosure, the Company continued to be more initiative in information disclosure in its periodic reports, placing special emphasis on hot issues that concern investors and information particularly related to the banking sector in light of the macroeconomic and financial environment, further improving initiative and transparency in information disclosure in periodic reports. No material error was reported regarding information disclosure during the reporting period.

During the reporting period, the Company further strengthened management of information disclosure and insider trading, and reinforced employees' compliance consciousness and increased their vigilance towards insider information leakage and insider trading by organizing special trainings and examinations, which was useful in minimizing compliance risk and reputational risk arising from information leakage.

In addition, during the reporting period, the Company revised the "Guidelines for Information Disclosure and Insider Information Management Relating to Substantial Shareholders" in accordance with new regulatory requirements and actual situation of work, so as to ensure that the shareholders will play an active role in performing their information disclosure obligations in a timely manner.

During the reporting period, the Company's Annual Report 2014 won Silver Award for Written Text in the International ARC Annual Report Competition known as Annual Report Oscar, and Silver Award for Banking Annual Report in League of American Communications Professionals LLC (LACP), one of the world's leading annual report competitions.

In 2016, following the core idea of "improve quality and control risks", the Company will continue to improve the disclosure quality of periodic reports and ad hoc announcements so as to satisfy investors' requirements. Meanwhile, the Company will further optimize and improve our workflows and take effective measures to prevent the risks associated with information disclosure.

# 9.12 Shareholders' Rights

## Convening of extraordinary general meeting

An extraordinary 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.

Two or more shareholders holding more than 10% of the voting shares at the proposed general meeting may sign one or several same written requests requisitioning the Board of Directors to convene an extraordinary general meeting or class meeting and stating the subjects to be considered at the meeting. The number of shares held referred to above shall be calculated on the date the shareholders submit their written request. The Board of Directors shall give written replies as to whether it agrees or disagrees to the convening of the extraordinary general meeting or class meeting within 10 days after receiving the request according to the provisions of laws, administrative regulations and the Articles of Association of the Company.

If the Board of Directors agrees to convene an extraordinary general meeting or class meeting, it shall issue a notice on convening the shareholders' general meetings or class meeting within 5 days after passing the board resolution. Any change to the original proposal as stated in the notice shall be approved by the relevant shareholders.

## Making proposals at the shareholders' general meeting

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 10 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 proposal within two days after receiving the proposal.

Shareholder individually or jointly holding more than 1% of the issued shares of the Company may nominate candidate(s) for independent director(s) for election at the shareholders' general meeting.

## 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 and preside over 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 about the Company (including the Articles of Association, the status of share capital, the minutes of shareholders' general meeting, resolutions of board meetings, resolutions of meetings of the Board of Supervisors, financial and accounting reports, etc.) in accordance with the provisions of the Articles of Association after submitting written documents certifying the class and quantity of shares of the Company held by them and the Company verifies the identity of such shareholders.

# 9.13 Major Amendments to the Articles of Association of the Company

During the reporting period, the Company did not make any amendment to the Articles of Association.

# 9.14 Statement Made by the Directors about Their Responsibility on 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 2015 to present a true view of the operating results of the Company. So far as the directors are aware, there are no material uncertainties related to events or conditions that might have a significant adverse effect on the Company's ability of sustainable operation.

# 9.15 Compliance with the Corporate Governance Code

During the reporting period, save as disclosed below, 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). In respect of code provision E.1.2 of the Corporate Governance Code, the Chairman of the Board (also the Chairman of the Strategy Committee) was unable to attend the 2014 Annual General Meeting of the Company, the 2015 First Class Meeting of the Shareholders of A Shares and the 2015 First Class Meeting of Shareholders of H Shares held on 19 June 2015 due to business engagement.

# 9.16 Internal Control

In accordance with the laws and regulations such as the "Basic Principles for Internal Control of Enterprises" and the relevant guidelines, the "Internal Control Guidelines for Commercial Banks" as well as the requirements of Shanghai Stock Exchange and Hong Kong Stock Exchange, the Company formulated the objectives and principles of internal control, and established an internal control system consisting of all necessary elements, to exert control over the whole process of operation management of the Company, and continued to enhance the integrity, rationality and effectiveness of our internal control system in practice.

During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2015 across all departments of the Head Office, its branches and sub-branches. As reviewed by the Board of Directors of the Company, no significant defects in terms of completeness, reasonableness and effectiveness were found in the Company's internal control system.For more details, please refer to the "2015 Report on Assessment of Internal Control of China Merchants Bank Co., Ltd.", and the "Auditors' Report on Internal Control" issued by KPMG Huazhen Certified Public Accountants with standard unqualified opinions.

# 9.17 Internal Audit

The Company has established a sound internal audit mechanism. Firstly, the Company has formulated an independent and vertical internal audit management system. The Head Office has an audit department which consists of 9 audit divisions. The audit department at the Head Office carries out the examination, supervision and appraisal functions independently, and reports to the Board of Directors and its audit committee. The person in charge of the audit department at the Head Office shall be appointed by the Board of Directors. The annual audit plan shall be approved by the Board of Directors and the audit results shall be reported to the Board of Directors. Secondly, the Company formulated a set of systems comprising of general rules, operational rules and practice based on the "Internal Audit Constitution of China Merchants Bank" and established an inspection model that gives equal emphasis on onsite and offsite checks.

The Audit Department of the Company shall supervise, inspect and assess the effectiveness of the management activities, risk profile and internal control of the whole Bank (including domestic and overseas branches, business management departments, affiliates), follow up the rectification of audit findings, and provide independent audit advices and the recommendations on operation management to the Board of Directors, promote the rectification and implementation of audit findings and strengthen the examination and application of rectifications.

In 2015, the Company further expanded its audit coverage, put more efforts on risk audit, established an audit-themed talk system, took more follow-up actions on audit issues and improved the effectiveness of rectifying problems identified during the audit process, thereby promoting the Company's internal control and risk management level and effectively assuring the sustainable and healthy development of all business lines of 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, 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, the Commercial Banking Law 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 was 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

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants have audited the financial reports for 2015 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 reports give a true, objective and accurate view of the financial position and operating results of the Company.

## Purchase and sale of assets

During the reporting period, the Company has no new significant acquisition or disposal of assets.

## 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 the general meeting(s)

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meeting in 2015, and concluded that the Board of Directors had duly implemented relevant resolutions passed at the 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 2015", and concurred with the Board of Directors' representations regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

By Order of the Board of Supervisors
**Liu Yuan**
*Chairman of the Board of Supervisors*

30 March 2016

# Documents Available for Inspection

11.1 Original copy of the Annual Report containing signatures of the directors and senior management of the Company;

11.2 Accounting statements signed and executed by Legal Representatives, Presidents, Chief Financial Officer and the person in charge of the Finance and Accounting Department;

11.3 Original copy of audit reports containing seals of the accounting firm, signatures and seals of certified public accountants;

11.4 Original copy of all the documents and announcements of the Company which were publicly disclosed during the reporting period in the designated newspapers of China Securities Regulatory Commission;

11.5 Annual Reports disclosed on the Hong Kong Stock Exchange;

11.6 The Articles of Association of China Merchants Bank Co., Ltd..

# Financial Reports



(See Annex)

# Independent Auditor's Report

HKSZA1600017

KPMG

**Independent auditor's report to the shareholders of China Merchants Bank Co., Ltd**
*(a joint stock company incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd ("the Bank") and its subsidiaries (together "the Group") set out on pages 164 to 302, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HKSZA1600017

# Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2016

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2015 | 2014 (Restated) |
|---|---|---|---|
| Interest income | 3 | 234,722 | 228,036 |
| Interest expense | 4 | (97,993) | (110,834) |
| **Net interest income** | | 136,729 | 117,202 |
| Fee and commission income | 5 | 57,798 | 43,341 |
| Fee and commission expense | | (4,379) | (3,847) |
| **Net fee and commission income** | | 53,419 | 39,494 |
| **Other net income** | 6 | 12,018 | 9,671 |
| **Operating income** | | 202,166 | 166,367 |
| Operating expenses | 7 | (67,670) | (61,081) |
| Charge for insurance claims | | (287) | (332) |
| **Operating profit before impairment losses** | | 134,209 | 104,954 |
| Impairment losses | 11 | (59,266) | (31,681) |
| Share of profits of associates | | 2 | 2 |
| Share of profits of joint ventures | | 134 | 156 |
| **Profit before taxation** | | 75,079 | 73,431 |
| Income tax | 12 | (17,061) | (17,382) |
| **Profit for the year** | | 58,018 | 56,049 |
| **Attributable to:** | | | |
| Equity shareholders of the Bank | | 57,696 | 55,911 |
| Non-controlling interests | | 322 | 138 |
| **Earnings per share** | | | |
| Basic and diluted (RMB) | 14 | 2.29 | 2.22 |

The notes on pages 171 to 302 form part of these financial statements.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Profit for the year** | | **58,018** | 56,049 |
| **Other comprehensive income for the year after tax and reclassification adjustments** | | | |
| Items that will be reclassified to profit or loss | | | |
| Exchange difference on translation of financial statements of overseas subsidiaries | | 966 | 427 |
| Available-for-sale financial assets: net movement in fair value reserve | | 4,224 | 7,415 |
| Cash flow hedge: net movement in hedging reserve | | 404 | 788 |
| Equity-accounted investees – share of other comprehensive income | | 64 | 35 |
| | | 5,658 | 8,665 |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Remeasurement of defined benefit liability | | (53) | – |
| **Other comprehensive income for the year, net of tax** | 13 | **5,605** | 8,665 |
| **Attributable to:** | | | |
| Equity shareholders of the Bank | | 5,603 | 8,664 |
| Non-controlling interests | | 2 | 1 |
| **Total comprehensive income for the year** | | **63,623** | 64,714 |
| **Attributable to:** | | | |
| Equity shareholders of the Bank | | 63,299 | 64,575 |
| Non-controlling interests | | 324 | 139 |

The notes on pages 171 to 302 form part of these financial statements.

# Consolidated Statement of Financial Position

At 31 December 2015

(Expressed in millions of Renminbi unless otherwise stated)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Assets** | | | |
| Cash | | 14,381 | 14,793 |
| Precious metals | | 16,099 | 15,222 |
| Balances with central bank | 15 | 569,961 | 639,992 |
| Balances with banks and other financial institutions | 16 | 63,779 | 55,986 |
| Placements with banks and other financial institutions | 17 | 185,693 | 124,085 |
| Amounts held under resale agreements | 18 | 343,924 | 344,980 |
| Loans and advances to customers | 19 | 2,739,444 | 2,448,754 |
| Interest receivable | 20 | 24,934 | 23,560 |
| Financial assets at fair value through profit or loss | 21(a) | 59,081 | 40,190 |
| Derivative financial assets | 54(f) | 10,176 | 9,315 |
| Available-for-sale financial assets | 21(b) | 299,559 | 278,526 |
| Held-to-maturity investments | 21(c) | 353,137 | 259,434 |
| Debt securities classified as receivables | 21(d) | 716,064 | 408,752 |
| Interest in joint ventures | 23 | 2,732 | 1,465 |
| Interest in associates | 24 | 54 | 19 |
| Property and equipment | 25 | 31,835 | 27,445 |
| Investment properties | 26 | 1,708 | 1,684 |
| Intangible assets | 27 | 3,595 | 3,292 |
| Goodwill | 28 | 9,954 | 9,953 |
| Deferred tax assets | 29 | 16,020 | 10,291 |
| Other assets | 30 | 12,848 | 14,091 |
| **Total assets** | | 5,474,978 | 4,731,829 |
| **Liabilities** | | | |
| Borrowing from central bank | | 62,600 | 20,000 |
| Deposits from banks and other financial institutions | 31 | 711,561 | 697,448 |
| Placements from banks and other financial institutions | 32 | 178,771 | 94,603 |
| Amounts sold under repurchase agreements | 33 | 185,652 | 66,988 |
| Deposits from customers | 34 | 3,571,698 | 3,304,438 |
| Interest payable | 35 | 39,073 | 45,349 |
| Financial liabilities at fair value through profit or loss | 21(e) | 20,227 | 13,369 |
| Derivative financial liabilities | 54(f) | 7,575 | 10,246 |
| Debt securities issued | 36 | 251,507 | 106,155 |
| Salaries and welfare payable | 37(a) | 6,524 | 6,068 |
| Tax payable | 38 | 12,820 | 11,656 |
| Deferred tax liabilities | 29 | 867 | 771 |
| Other liabilities | 39 | 64,345 | 39,678 |
| **Total liabilities** | | 5,113,220 | 4,416,769 |

The notes on pages 171 to 302 form part of these financial statements.

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 40 | **25,220** | 25,220 |
| Capital reserve | 41 | **67,523** | 67,523 |
| Investment revaluation reserve | 42 | **6,188** | 1,902 |
| Hedging reserve | 43 | **241** | (163) |
| Surplus reserve | 44 | **34,009** | 28,690 |
| Regulatory general reserve | 45 | **64,679** | 53,979 |
| Retained profits | | **145,887** | 121,665 |
| Proposed profit appropriations | 46(b) | **17,402** | 16,897 |
| Exchange reserve | 47 | **(343)** | (1,309) |
| Total equity attributable to equity shareholders of the Bank | | **360,806** | 314,404 |
| Non-controlling interests | 57 | **952** | 656 |
| **Total equity** | | **361,758** | 315,060 |
| **Total equity and liabilities** | | **5,474,978** | 4,731,829 |

Approved and authorised for issue by the Board of Directors on 30 March 2016.

**Li Jianhong**
*Director*

**Tian Huiyu**
*Director*

**Company Chop**

The notes on pages 171 to 302 form part of these financial statements.

# Consolidated Statement of Changes in Equity

## For the year ended 31 December 2015

(Expressed in millions of Renminbi unless otherwise stated)

**2015**

| | Note | Total equity attributable to equity shareholders of the Bank | | | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Capital reserve | Investment revaluation reserve | Hedging reserve | Surplus reserve | Regulatory general reserve | Retained profits | Proposed profit appropriations | Exchange reserve | Subtotal | | |
| At 1 January 2015 | | 25,220 | 67,523 | 1,902 | (163) | 28,690 | 53,979 | 121,665 | 16,897 | (1,309) | 314,404 | 656 | 315,060 |
| Changes in equity for the year | | – | – | 4,286 | 404 | 5,319 | 10,700 | 24,222 | 505 | 966 | 46,402 | 296 | 46,698 |
| (a) Net profit for the year | | – | – | – | – | – | – | 57,696 | – | – | 57,696 | 322 | 58,018 |
| (b) Other comprehensive income for the year | 13 | – | – | 4,286 | 404 | – | – | (53) | – | 966 | 5,603 | 2 | 5,605 |
| Total comprehensive income for the year | | – | – | 4,286 | 404 | – | – | 57,643 | – | 966 | 63,299 | 324 | 63,623 |
| (c) Changes by the shareholder's equity | | | | | | | | | | | | | |
| (i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries | 57 | – | – | – | – | – | – | – | – | – | – | 83 | 83 |
| (ii) Decrease in non-controlling interests | | – | – | – | – | – | – | – | – | – | – | (83) | (83) |
| (d) Profit appropriations | | | | | | | | | | | | | |
| (i) Appropriations to statutory surplus reserve | 44 | – | – | – | – | 5,319 | – | (5,319) | – | – | – | – | – |
| (ii) Appropriations to regulatory general reserve | 45 | – | – | – | – | – | 10,700 | (10,700) | – | – | – | – | – |
| (iii) Dividends paid for the year 2014 | | – | – | – | – | – | – | – | (16,897) | – | (16,897) | (28) | (16,925) |
| (iv) Proposed dividends for the year 2015 | | – | – | – | – | – | – | (17,402) | 17,402 | – | – | – | – |
| At 31 December 2015 | | 25,220 | 67,523 | 6,188 | 241 | 34,009 | 64,679 | 145,887 | 17,402 | (343) | 360,806 | 952 | 361,758 |

**2014**

| | Note | Total equity attributable to equity shareholders of the Bank | | | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Capital reserve | Investment revaluation reserve | Hedging reserve | Surplus reserve | Regulatory general reserve | Retained profits | Proposed profit appropriations | Exchange reserve | Subtotal | | |
| At 1 January 2014 | | 25,220 | 67,523 | (5,547) | (951) | 23,502 | 46,347 | 95,471 | 15,636 | (1,736) | 265,465 | 491 | 265,956 |
| Changes in equity for the year | | – | – | 7,449 | 788 | 5,188 | 7,632 | 26,194 | 1,261 | 427 | 48,939 | 165 | 49,104 |
| (a) Net profit for the year | | – | – | – | – | – | – | 55,911 | – | – | 55,911 | 138 | 56,049 |
| (b) Other comprehensive income for the year | 13 | – | – | 7,449 | 788 | – | – | – | – | 427 | 8,664 | 1 | 8,665 |
| Total comprehensive income for the year | | – | – | 7,449 | 788 | – | – | 55,911 | – | 427 | 64,575 | 139 | 64,714 |
| (c) Changes by the shareholder's equity | | | | | | | | | | | | | |
| (i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries | 57 | – | – | – | – | – | – | – | – | – | – | 84 | 84 |
| (ii) Decrease in non-controlling interests | | – | – | – | – | – | – | – | – | – | – | (38) | (38) |
| (d) Profit appropriations | | | | | | | | | | | | | |
| (i) Appropriations to statutory surplus reserve | 44 | – | – | – | – | 5,188 | – | (5,188) | – | – | – | – | – |
| (ii) Appropriations to regulatory general reserve | 45 | – | – | – | – | – | 7,632 | (7,632) | – | – | – | – | – |
| (iii) Dividends paid for the year 2013 | | – | – | – | – | – | – | – | (15,636) | – | (15,636) | (20) | (15,656) |
| (iv) Proposed dividends for the year 2014 | | – | – | – | – | – | – | (16,897) | 16,897 | – | – | – | – |
| At 31 December 2014 | | 25,220 | 67,523 | 1,902 | (163) | 28,690 | 53,979 | 121,665 | 16,897 | (1,309) | 314,404 | 656 | 315,060 |

The notes on pages 171 to 302 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2015

(Expressed in millions of Renminbi unless otherwise stated)

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | 75,079 | 73,431 |
| **Adjustments for:** | | |
| – Impairment losses on loans and advances | 57,507 | 31,254 |
| – Impairment losses on investments and other assets | 1,759 | 427 |
| – Unwind of discount | (1,137) | (655) |
| – Depreciation of properties and equipments and investment properties | 4,086 | 3,535 |
| – Amortisation of other assets | 436 | 413 |
| – Net gain on debt securities and equity investments | (9,008) | (4,177) |
| – Interest income on investments | (48,175) | (37,749) |
| – Interest expense on issued debt securities | 7,150 | 3,921 |
| – Share of profits of associates | (2) | (2) |
| – Share of profits of joint ventures | (134) | (156) |
| – Net gains on disposal of properties and equipment | (4) | (3) |
| **Changes in:** | | |
| Balances with central bank | 38,689 | (59,267) |
| Loans and advances to customers | (347,286) | (331,091) |
| Other assets | (26,683) | (32,283) |
| Deposits from customers | 267,260 | 529,162 |
| Deposits and placements from banks and other financial institutions | 216,945 | 66,561 |
| Balances and placements with banks and other financial institutions with original maturity over 3 months | 125,226 | 24,909 |
| Borrowing from central bank | 42,600 | 20,000 |
| Other liabilities | 18,923 | 3,693 |
| **Cash generated from operating activities** | 423,231 | 291,923 |
| **Income tax paid** | (22,811) | (19,750) |
| **Net cash generated from operating activities** | 400,420 | 272,173 |
| **Investing activities** | | |
| Payment for the purchase of investments | (865,591) | (787,928) |
| Proceeds from the disposal of investments | 451,491 | 579,100 |
| Gains received from investments | 51,407 | 39,675 |
| Payment for the purchase of properties and equipments and other assets | (9,079) | (8,125) |
| Proceeds from the disposal of properties and equipments and other assets | 167 | 1,297 |
| Loans repaid by joint ventures | 2 | 2 |
| **Net cash used in investing activities** | (371,603) | (175,979) |

The notes on pages 171 to 302 form part of these financial statements.

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from the issue of debt securities | | 200 | 15,395 |
| Proceeds from the issue of medium term notes | | 3,046 | 5,076 |
| Proceeds from the issue of negotiable interbank certificates of deposits | | 290,867 | 24,155 |
| Proceeds from the issue of certificates of deposits | | 23,105 | 29,377 |
| Proceeds from non-controlling shareholders | | 83 | 84 |
| Repayment of negotiable interbank certificates of deposits | | (143,500) | (3,000) |
| Repayment of certificates of deposit | | (28,812) | (31,790) |
| Repayment of redemption of non-controlling equity | | (83) | (38) |
| Dividends paid | | (16,925) | (15,656) |
| Interest paid on issued debt securities | | (3,096) | (1,724) |
| **Net cash generated from financing activities** | | 124,885 | 21,879 |
| **Net increase in cash and cash equivalents** | | 153,702 | 118,073 |
| **Cash and cash equivalents as at 1 January** | | 471,471 | 349,949 |
| **Effect of foreign exchange rate changes** | | 10,670 | 3,449 |
| **Cash and cash equivalents as at 31 December** | 49(a) | 635,843 | 471,471 |
| **Cash flows from operating activities include:** | | | |
| Interest received | | 189,783 | 188,752 |
| Interest paid | | 99,409 | 112,124 |

The notes on pages 171 to 302 form part of these financial statements.

# Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

## 1 Organisation and principal activities

### (a) 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 2015, apart from the Head Office, the Bank had 47 branches in the Mainland China, Hong Kong, New York, Singapore and Luxembourg. In addition, the Bank has four representative offices in Beijing, London, New York and Taipei.

### (b) Principal activities

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

## 2 Significant accounting policies

### (a) Statement of compliance and basis of preparation

These 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 financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKEx.

# 2 Significant accounting policies *(continued)*

## (b) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 2 to both periods presented in these consolidated financial statements.

The Group has adopted the following Annual Improvements to IFRSs with an initial effective date of 1 January 2015.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs 2010-2012
- Annual Improvements to IFRSs 2011-2013

*Amendments to IAS 19, Employee benefits: Defined benefit plans: Employee contributions*

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the defined benefit plans operated by the Group are wholly funded by contributions from the Group and do not involve contributions from employees or third parties.

*Amendments to IAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements*

The Group has early adopted the Amendments to IAS 27 "Separate Financial Statements – Equity Method in Separate Financial Statements" as at 1 January 2015 with an effective date of 1 January 2016. The amendments allow an entity to apply the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments shall be adopted retrospectively. The adoption of the amendments can eliminate the differences in the subsequent measurement in joint ventures and associates of the Group in its separate financial statements prepared in accordance with the IFRSs and the China Accounting Standards issued by the Ministry of Finance of the PRC, and the adoption does not have material impact on the Group's consolidated financial statements.

## (c) Basis of measurement

Unless stated otherwise, the financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million, unless otherwise stated.

The financial statements are prepared using the historical cost basis except that financial assets and liabilities at fair value through profit or loss including derivatives, and available-for-sale financial assets are stated at their fair value.

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 financial statements and estimates with a significant risk of material adjustment in the future period are discussed in Note 55.

# 2 Significant accounting policies *(continued)*

## (d) Subsidiaries and non-controlling interests

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. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's identifiable net assets. 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 on the face of 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 2(i)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see Note 2(e)) or, an associate (see Note 2(f)).

In the Bank's statement of financial position (see Note 60), its investments in subsidiaries are stated at cost less allowances for impairment losses.

# 2 Significant accounting policies *(continued)*

## (e) 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.

Investment in joint ventures is 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 joint ventures' net assets. Any acquisition-date excess over cost, the consolidated statement of profit or loss includes the Group's share of the post-acquisition, 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 2(g) and 2(n)(ii)).

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, 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. 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 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 2(f)).

In the Bank's statement of financial position (see Note 60), investments in joint ventures are stated at cost less impairment losses.

# 2 Significant accounting policies *(continued)*

## (f) Associates

Associate is an entity in which the Group has significant influence, but not control, or joint control, over its management, 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 judge 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.

Interests in the associates 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 associates until the date on which significant influence or joint control ceases.

Investment in associates is 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 acquisition-date excess over cost, the consolidated statement of profit or loss includes the Group's share of the post-acquisition, 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 2(g) and 2(n)(ii)).

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. 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 2(i)).

# 2 Significant accounting policies *(continued)*

## (g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest 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 recognised 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 CGU, or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(n)(ii)).

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.

## (h) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see Note 2(n)(ii)). 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 31 December 2015.

Both the period and method of amortisation are reviewed annually.

# 2 Significant accounting policies *(continued)*

## (i) Financial instruments

### (i) Initial recognition and classification

All financial assets and financial liabilities are recognised in the consolidated statement of financial position when and only when, the Group becomes a party to the contractual provisions of the instruments. Financial assets are derecognised on the date when the contractual rights to substantially all the risks and rewards of ownership or the cash flows expire are transferred.

Except for loans and non-standard debt investments that are recognised using settlement date accounting, purchase or sale of other financial assets is recognised using trade date accounting. From these date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities measured at fair value are recorded.

Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired.

At initial recognition, all financial assets and liabilities are measured at fair value. In the case of financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data. Transaction costs of financial assets and liabilities at fair value through profit or loss are expensed immediately.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

– Financial assets and financial liabilities at fair value through profit or loss, include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss.

  All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

  Financial instruments are designated as financial assets and financial liabilities at fair value through profit or loss upon initial recognition when:

  – the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

  – the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

  – the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

  – the separation of the embedded derivative from the financial instrument is not prohibited.

– Held-to-maturity investments

  Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Group has the positive intent and ability to hold to maturity.

# 2 Significant accounting policies *(continued)*

## (i) Financial instruments *(continued)*

### (i) Initial recognition and classification *(continued)*

– Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available-for-sale financial assets upon initial recognition.

– Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

– Other financial liabilities

Other financial liabilities, other than that at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity investments and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

For financial assets and liabilities measured at amortised cost, a gain or loss is recognised in the consolidated statement of profit or loss when the financial asset or liability is derecognised, impaired and amortised.

### (ii) Fair value measurement principles

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions of the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Group uses valuation techniques to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would account in pricing a transaction.

# 2 Significant accounting policies *(continued)*

## (i) Financial instruments *(continued)*

### (iii) Hedge accounting

The Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in cash flow hedge provided certain criteria are met.

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require 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.

*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 equity. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss within "trading profits" of "other net income".

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from equity 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 equity 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 that was recognised in other comprehensive income is immediately reclassified to the consolidated statement of profit or loss.

*Hedge effectiveness testing*

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the change in cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed highly effective.

*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. These gains and losses are recognised in "trading profits" of "other net income".

# 2 Significant accounting policies *(continued)*

## (i) Financial instruments *(continued)*

### (iv) 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.

*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, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC") and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

*Investments*

Equity investments are accounted for as financial assets at fair value through profit or loss or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity investments, debt securities classified as receivables, and available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

*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.

### (v) Derivative financial instruments

The Group's derivative financial instruments mainly include spot, 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.

### (vi) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

– the host contract is not itself carried at fair value through profit or loss;

– the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and

– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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 or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

# 2 Significant accounting policies *(continued)*

## (i) Financial instruments *(continued)*

### (vii) Securitisations

The Group securitises various credit assets, which generally results in the sale of these assets to special purpose entities, which, in turn 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). Retained interests are stated at fair value on the statement of financial position of the Group. Gains or losses on securitisation depend on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair value at the date of the transfer. Gains or losses on securitisation are recorded in "other net income".

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.

### (viii) Equity instrument

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.

### (ix) Perpetual bonds

At initial recognition, the Group classifies the perpetual bonds issued or their components as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

# 2 Significant accounting policies *(continued)*

## (j) 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:

| | |
|---|---|
| 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 and other asset when the asset is ready for its intended use. No depreciation is provided for construction in progress.

The carrying amount of property, equipment and investment property is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. 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.

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.

# 2 Significant accounting policies *(continued)*

## (k) 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 are reported in "other assets".

Repossessed assets are measured at fair value at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated statement of profit or loss.

## (l) Finance and operating lease

### (i) Classification

Lease is classified into finance and operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

### (ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the 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. Finance income implicit in the lease payment is recognised as "interest income" over the period of the leases in proportion to the funds invested. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n)(i).

### (iii) Operating leases

– *Operating lease*

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

– *Assets leased out under operating leases*

Property, equipment and investment property leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(j) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n)(ii). Income derived from operating leases is recognised in the statement of profit or loss using the straight-line method over the lease term. If 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. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit or loss in the accounting period in which they are incurred.

## (m) 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.

# 2 Significant accounting policies *(continued)*

## (n) Impairment

### (i) Financial assets

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidences include:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

– disappearance of an active market for financial assets because of financial difficulties; or

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated statement of profit or loss.

*Impairment losses on loans and receivables, held-to-maturity investments*

The Group uses two methods of assessing impairment losses on loans and receivables, held-to-maturity investments: those assessed individually and those assessed on a collective basis.

– *Individually assessed*

Loans and receivables, held-to-maturity investments which are considered individually significant are assessed individually for impairment.

Impairment allowances are made on individually impaired significant loans and receivables, held-to-maturity investments when there is objective evidence of impairment that will impact the estimated future cash flows of the loans and receivables, held-to-maturity investments. Individually impaired loans and advances are graded as substandard or below.

Impairment allowance of an individually impaired significant loans and receivables, held-to-maturity investments is measured as the difference between the loans and receivables, held-to-maturity investments' carrying amount and the present value of estimated future cash flows discounted at the loans and receivables, held-to-maturity investments' applicable effective interest rate. The carrying amount of the loans and receivables, held-to-maturity investments is reduced through the allowance for impairment losses.

The calculation of the present value of the estimated future cash flows of a collateralised loans and receivables, held-to-maturity investments reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

# 2 Significant accounting policies *(continued)*

## (n) Impairment *(continued)*

### (i) Financial assets *(continued)*

***Impairment losses on loans and receivables, held-to-maturity investments*** *(continued)*

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

– no objective evidence of impairment exists for an individually assessed loans and receivables, held-to-maturity investments; and

– for homogeneous groups of loans and receivables, held-to-maturity investments that are not individually significant with similar credit risk characteristics.

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loans and receivables, held-to-maturity investments on an individual basis, whether significant or not, the loans and receivables, held-to-maturity investments are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans and receivables, held-to-maturity investments that are impaired at the end of the reporting period but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans and receivables, held-to-maturity investments in the pool of loans and receivables, held-to-maturity investments, those loans and receivables, held-to-maturity investments are removed from the pool. Loans and receivables, held-to-maturity investments that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

– the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loans and receivables, held-to-maturity investments portfolio based primarily on the historical loss experience;

– the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loans and receivables, held-to-maturity investments; and

– management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans and receivables, held-to-maturity investments

Portfolios of homogeneous loans and receivables, held-to-maturity investments are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loans and receivables, held-to-maturity investments that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of profit or loss.

# 2 Significant accounting policies *(continued)*

## (n) Impairment *(continued)*

### (i) Financial assets *(continued)*

*Impairment losses on loans and receivables, held-to-maturity investments (continued)*

When the Group determines that loans and receivables, held-to-maturity investments has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loans and receivables, held-to-maturity investments is written off against its allowance for impairment losses. Amount recovered from loans and receivables, held-to-maturity investments that has been written off will be reversed through the impairment losses account in the consolidated statement of profit or loss.

Loans and advances with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and advances are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

*Impairment losses on available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income is removed from other comprehensive income and is recognised in the consolidated statement of profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated statement of profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated statement of profit or loss. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated statement of profit or loss.

Impairment losses recognised in the consolidated statement of profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of profit or loss. Any subsequent increase in the fair value of these assets is recognised directly in equity.

### (ii) Other assets

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

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.

# 2 Significant accounting policies *(continued)*

## (n) Impairment *(continued)*

### (ii) Other assets *(continued)*

– *Calculation of recoverable amount*

The recoverable amount of an asset 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.

– *Reversal of impairment losses*

Once recognised, the impairment losses will never be reversed.

## (o) Convertible bonds issued

At initial recognition the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve.

If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

# 2 Significant accounting policies *(continued)*

## (p) Financial guarantee issued, provisions and contingent liabilities

### (i) 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.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within "other liabilities".

The deferred income is amortised in the consolidated statement of profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(n)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

### (ii) 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 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.

# 2 Significant accounting policies *(continued)*

## (q) Income recognition

### (i) Interest income

Interest income is recognised in the consolidated statement of profit or loss on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses from all financial assets and liabilities that are classified as financial assets at fair value through profit or loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

### (ii) Fee and commission income

Fee and commission income is recognised in the consolidated statement of profit or loss when the corresponding service is provided.

### (iii) 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.

### (iv) 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.

# 2 Significant accounting policies *(continued)*

## (r) 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 provided using the statement of financial position liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 enacted or substantially enacted at the end of the reporting period. 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.

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.

## (s) Foreign currencies translations

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into RMB at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities, and share capital which are measured at historical cost in a foreign currency are translated into RMB at the foreign exchange rates ruling at the date of the transaction, whilst those stated at fair value are translated into RMB at the foreign exchange rate ruling at the date of valuation. Income and expenses denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. When the gain or loss on a non-monetary item, including available-for-sale equity instrument, is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated statement of profit or loss.

The assets and liabilities of operations outside Mainland China are translated into RMB at the spot exchange rates ruling at the end of the reporting period. The equity items, excluding "Retained profits", are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "exchange reserve" in other comprehensive income.

# 2 Significant accounting policies *(continued)*

## (s) Foreign currencies translations *(continued)*

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the consolidated statement of profit or loss when the profit or loss on disposal is recognised.

## (t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

## (u) Employee benefits

### (i) Salaries and staff welfare

Salaries, bonuses and other benefits are accrued in the period in which the associated services are rendered by employees.

### (ii) 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, considerations 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.

# 2 Significant accounting policies *(continued)*

## (u) Employee benefits *(continued)*

### (iii) Share-based payment

The Group offers equity incentives to its employee, namely H share Appreciation Rights Scheme for the Senior Management ("the Scheme"). The Scheme is accounted for as cash settled plan. The fair value of the equity incentives is measured at grant date using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity incentives, the total estimated fair value of the equity incentives is spread over the vesting period, taking into account the probability that the equity incentives will vest.

During the vesting period, the equity incentives that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the consolidated statement of profit or loss for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual amount of equity incentives that vest.

## (v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, 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.

## (w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the 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.

## (x) 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.

## (y) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

# 3 Interest income

| | 2015 | 2014 (Restated) |
|---|---|---|
| Loans and advances to customers | | |
| – Corporate loans | 76,943 | 82,168 |
| – Retail loans | 78,076 | 63,630 |
| – Discounted bills | 4,866 | 5,131 |
| Balances with central bank | 8,598 | 8,318 |
| Balances and placements with banks and other financial institutions | 5,962 | 10,579 |
| Amounts held under resale agreements | 12,102 | 20,461 |
| Investments | 48,175 | 37,749 |
| Interest income on financial assets that are not at fair value through profit or loss | 234,722 | 228,036 |

Note: For the year ended 31 December 2015, included in the above is interest income of RMB1,137 million accrued on impaired loans (2014: RMB655 million) and nil for impaired debt securities investments (2014: Nil).

# 4 Interest expense

| | 2015 | 2014 |
|---|---|---|
| Deposits from customers | 60,448 | 64,102 |
| Borrowing from central bank | 1,056 | 142 |
| Deposits and placements from banks and other financial institutions | 26,549 | 41,032 |
| Amounts sold under repurchase agreements | 2,790 | 1,637 |
| Debt securities issued | 7,150 | 3,921 |
| Interest expense on financial liabilities that are not at fair value through profit or loss | 97,993 | 110,834 |

# 5 Fee and commission income

| | 2015 | 2014 (Restated) |
|---|---|---|
| Bank cards fees | 9,562 | 7,692 |
| Remittance and settlement fees | 3,799 | 4,116 |
| Agency services fees | 13,681 | 7,017 |
| Commissions from credit commitment and lending business | 4,215 | 4,204 |
| Commissions on trust and fiduciary activities | 18,644 | 13,033 |
| Others | 7,897 | 7,279 |
| | 57,798 | 43,341 |

# 6 Other net income

| | 2015 | 2014 (Restated) |
|---|---|---|
| Trading profits from | | |
| – Foreign exchange | 2,398 | 2,467 |
| – Bonds, derivatives and other trading activities | 3,073 | 1,618 |
| Net losses from financial instruments designated at fair value through profit or loss | (118) | (359) |
| Net gains/(loss) from available-for-sale financial assets | 611 | (145) |
| Distributions from investment in funds | 4 | 21 |
| Rental income | 534 | 476 |
| Gain on disposal of bills | 4,519 | 4,238 |
| Insurance income | 498 | 475 |
| Net trading gains from precious metals | 188 | 539 |
| Others | 311 | 341 |
| | 12,018 | 9,671 |

# 7 Operating expenses

| | 2015 | 2014 |
|---|---|---|
| Staff costs | | |
| – Salaries and bonuses (Note (i)) | 21,548 | 19,968 |
| – Social insurance and corporate supplemental insurance | 4,779 | 4,426 |
| – Others | 5,067 | 4,785 |
| | 31,394 | 29,179 |
| Business tax and surcharges | 11,929 | 10,425 |
| Property, equipment and investment properties depreciation | 4,086 | 3,535 |
| Rental expenses | 3,842 | 3,349 |
| Other general and administrative expenses (Note (ii)) | 16,419 | 14,593 |
| | 67,670 | 61,081 |

Notes:

(i) Performance bonus is included in the above salaries and bonuses, the details of which are disclosed in Note 37(c).

(ii) Auditors' remuneration amounted to RMB22 million for the year ended 31 December 2015 (2014: RMB17 million), included in other general and administrative expenses.

# 8 Directors' and Supervisors' emoluments

The emoluments of the Directors and Supervisors during the year are as follows:

| | 2015 | | | | |
|---|---|---|---|---|---|
| | 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 | – | 4,200 | – | 546 | 4,746 |
| Li Hao | – | 3,360 | – | 437 | 3,797 |
| **Non-executive directors** | | | | | |
| Li Jianhong | – | – | – | – | – |
| Ma Zehua | – | – | – | – | – |
| Li Xiaopeng | – | – | – | – | – |
| Li Yinquan | – | – | – | – | – |
| Sun Yueying | – | – | – | – | – |
| Su Min | – | – | – | – | – |
| Fu Gangfeng | – | – | – | – | – |
| Hong Xiaoyuan | – | – | – | – | – |
| **Independent non-executive directors and supervisors** | | | | | |
| Wong Kwai Lam | 300 | – | – | – | 300 |
| Liang Jinsong | 275 | – | – | – | 275 |
| Pan Chengwei | 300 | – | – | – | 300 |
| Pan Yingli | 300 | – | – | – | 300 |
| Guo Xuemeng (iv) | 300 | – | – | – | 300 |
| Zhao Jun | 275 | – | – | – | 275 |
| Liu Yuan | – | 3,360 | – | 437 | 3,797 |
| Zhu Genlin | – | – | – | – | – |
| Fu Junyuan (iii & iv) | – | – | – | – | – |
| Liu Zhengxi | – | – | – | – | – |
| Pan Ji (iv) | 375 | – | – | – | 375 |
| Dong Xiande (iv) | 400 | – | – | – | 400 |
| Jin Qingjun | 300 | – | – | – | 300 |
| Xiong Kai | – | 1,989 | – | 258 | 2,247 |
| Huang Dan | – | 1,685 | – | 219 | 1,904 |

# 8 Directors' and Supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

| | 2015 | | | | |
|---|---|---|---|---|---|
| | 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** | | | | | |
| Zhang Guanghua (iv) | – | 1,680 | – | 218 | 1,898 |
| Xu Shanda (iv) | – | – | – | – | – |
| Xiao Yuhuai (iv) | – | – | – | – | – |
| Yu Yong (iv) | – | 358 | – | 47 | 405 |
| An Luming (iv) | – | – | – | – | – |
| | 2,825 | 16,632 | – | 2,162 | 21,619 |

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) As at 31 December 2015, the Group has offered 7 phases of H share appreciation rights scheme to its senior management ("the Scheme"). In 2015, none of the granted share appreciation rights was exercised. Details of the Scheme are set out in Note 37(a)(iii).

(iii) On 25 September 2015, the Bank's 1st 2015 extraordinary general meeting of shareholders considered and approved the Resolution on election of Fu Junyuan as a shareholders supervisor.

(iv) During the reporting period, An Luming resigned as the Bank's shareholders supervisor due to the change of job assignment.

During the reporting period, Fu Junyuan resigned as the Bank's non-executive director due to the change of job assignment.

During the reporting period, Zhang Guanghua resigned as the Bank's vice chairman and executive director due to the change of job assignment.

During the reporting period, Yu Yong resigned as the Bank's supervisor due to the change of job assignment.

During the reporting period, Guo Xuemeng resigned as the Bank's independent non-executive director due to the change of job assignment. To satisfy the requirement that independent non-executive directors should constitute one third (inclusive) of the board of directors, a new independent non-executive director will be elected in the shareholders' meeting to fill the vacancy caused by the resignation of Guo Xuemeng, the election becomes effective after the Banking supervision institution of China approves the qualification of the new independent non-executive director. In the meantime, Guo Xuemeng continues her duty as independent non-executive director in compliance with the relative rules, regulations and corporate constitutions.

During the reporting period, Pan Ji resigned as the Bank's external supervisor due to the change of job assignment. To satisfy the requirement that external supervisors should constitute over one third (inclusive) of the board of supervisors, his resignation will be effective after the election of a new external supervisor by the shareholders' meeting to fill the vacancy. In the meantime, Pan Ji continues his duty as external director.

During the reporting period, Dong Xiande resigned as the Bank's external supervisor due to the change of job assignment. To satisfy the requirement that external supervisors should constitute over one third (inclusive) of the board of supervisors, his resignation will be effective after the election of a new external supervisor by the shareholders' meeting to fill the vacancy. In the meantime, Dong Xiande continues his duty as external director.

In 2014, Xu Shanda resigned as the Bank's independent non-executive director due to the change of job assignment, his resignation was effective in 2015.

In 2014, Xiao Yuhuai resigned as the Bank's independent non-executive director due to the change of job assignment, his resignation was effective in 2015.

# 8 Directors' and Supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

| | 2014 | | | | |
|---|---|---|---|---|---|
| | 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 | – | 4,200 | 1,767 | 546 | 6,513 |
| Zhang Guanghua | – | 3,360 | 1,414 | 437 | 5,211 |
| Li Hao | – | 3,360 | 1,414 | 437 | 5,211 |
| **Non-executive directors** | | | | | |
| Li Jianhong (ii) | – | – | – | – | – |
| Ma Zehua | – | – | – | – | – |
| Li Xiaopeng (ii) | – | – | – | – | – |
| Li Yinquan | – | – | – | – | – |
| Sun Yueying | – | – | – | – | – |
| Su Min (ii) | – | – | – | – | – |
| Fu Junyuan | – | – | – | – | – |
| Fu Gangfeng | – | – | – | – | – |
| Hong Xiaoyuan | – | – | – | – | – |
| **Independent non-executive directors and supervisors** | | | | | |
| Wong Kwai Lam | 300 | – | – | – | 300 |
| Liang Jinsong (ii) | – | – | – | – | – |
| Pan Chengwei | 300 | – | – | – | 300 |
| Pan Yingli | 300 | – | – | – | 300 |
| Guo Xuemeng | 300 | – | – | – | 300 |
| Zhao Jun (ii) | – | – | – | – | – |
| Liu Yuan (ii) | – | 1,313 | 516 | 170 | 1,999 |
| Zhu Genlin | – | – | – | – | – |
| An Luming | – | – | – | – | – |
| Liu Zhengxi | – | – | – | – | – |
| Pan Ji | 225 | – | – | – | 225 |
| Dong Xiande (ii) | – | – | – | – | – |
| Jin Qingjun (ii) | 60 | – | – | – | 60 |
| Xiong Kai (ii) | – | 401 | – | 52 | 453 |
| Huang Dan (ii) | – | – | – | – | – |

# 8 Directors' and Supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

| | 2014 | | | | |
|---|---|---|---|---|---|
| | 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** | | | | | |
| Fu Yuning (iii) | – | – | – | – | – |
| Wang Daxiong (iii) | – | – | – | – | – |
| Xiong Xianliang (iii) | – | – | – | – | – |
| Yi Xiqun (iii) | 75 | – | – | – | 75 |
| Xu Shanda (iii) | – | – | – | – | – |
| Xiao Yuhuai (iii) | – | – | – | – | – |
| Han Mingzhi (iii) | – | 2,100 | 825 | 273 | 3,198 |
| Peng Zhijian (iii) | 150 | – | – | – | 150 |
| Shi Rongyao (iii) | 150 | – | – | – | 150 |
| Yu Yong (iii) | – | 2,138 | – | 278 | 2,416 |
| Guan Qizhi (iii) | – | 1,304 | – | 169 | 1,473 |
| | 1,860 | 18,176 | 5,936 | 2,362 | 28,334 |

Notes:

(i) On 29 September 2015, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2014. Disclosures in 2014 (Note 8, 9 & 56(h)) had been adjusted correspondingly.

(ii) On 30 June 2014, the Bank's 2013 general meeting of shareholders considered and approved the Resolution on election of Li Jianhong as a non-executive director.

On 20 October 2014, the Bank's 2nd 2014 extraordinary general meeting of shareholders considered and approved the Resolution on election of Li Xiaopeng as a non-executive director.

On 30 June 2014, the Bank's 2013 general meeting of shareholders considered and approved the Resolution on election of Su Min as a non-executive director.

On 20 October 2014, the Bank's 2nd 2014 extraordinary general meeting of shareholders considered and approved the Resolution on election of Liang Jinsong as an independent non-executive director.

On 20 October 2014, the Bank's 2nd 2014 extraordinary general meeting of shareholders considered and approved the Resolution on election of Zhao Jun as an independent non-executive director.

From 28 August 2014 to 29 August 2014, the Bank's 14th meeting of the 9th Supervisory Committee considered and approved the Resolution on election of Liu Yuan as a chairman of the Supervisors of the Bank, and elected Liu Yuan as the chairman of the 9th Supervisory Committee of the Bank.

On 30 June 2014, the Bank's 2013 general meeting of shareholders considered and approved the Resolution on election of Dong Xiande as an external supervisor.

On 20 October 2014, the Bank's 2nd 2014 extraordinary general meeting of shareholders considered and approved the Resolution on election of Jin Qingjun as an external supervisor.

On 26 August 2014, the Bank's workers' congress considered and elected Liu Yuan and Xiong Kai as employee supervisors of the 9th Supervisory Committee of the Bank.

On 10 March 2015, the Bank's workers' congress considered and elected Huang Dan as employee supervisor of the 9th Supervisory Committee of the Bank.

# 8 Directors' and Supervisors' emoluments *(continued)*

Notes: *(continued)*

(iii) During the reporting period, Fu Yuning retired as the Bank's non-executive director due to the change of job assignment.

During the reporting period, Wang Daxiong retired as the Bank's non-executive director due to the change of job assignment.

During the reporting period, Xiong Xianliang retired as the Bank's non-executive director due to the change of job assignment.

During the reporting period, Yi Xiqun retired as the Bank's independent non-executive director upon expiry of his term of office.

During the reporting period, Xu Shanda retired as the Bank's independent non-executive director due to the change of job assignment.

During the reporting period, Xiao Yuhuai retired as the Bank's independent non-executive director due to the change of job assignment.

During the reporting period, Han Mingzhi retired as the Bank's supervisor due to the change of job assignment.

During the reporting period, Peng Zhijian retired as the Bank's supervisor due to the change of job assignment.

During the reporting period, Shi Rongyao retired as the Bank's supervisor due to the change of job assignment.

During the reporting period, Guan Qizhi retired as the Bank's supervisor due to the change of job assignment.

On 9 March 2015, Yu Yong retired as the Bank's supervisor due to the change of job assignment.

# 8 Directors' and Supervisors' emoluments *(continued)*

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

| | 2015 | 2014 |
|---|---|---|
| RMB | | |
| Nil – 500,000 | 20 | 23 |
| 500,001 – 1,000,000 | – | – |
| 1,000,001 – 1,500,000 | – | – |
| 1,500,001 – 2,000,000 | 1 | 1 |
| 2,000,001 – 2,500,000 | 1 | – |
| 3,000,000 – 3,500,000 | – | – |
| 3,500,001 – 4,000,000 | 2 | – |
| 4,000,001 – 4,500,000 | – | – |
| 4,500,001 – 5,000,000 | 1 | – |
| 5,000,001 – 5,500,000 | – | 2 |
| 6,500,000 – 7,000,000 | – | 1 |
| | 25 | 27 |

During the year ended 31 December 2015, 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 2015, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

# 9 Individuals with highest emoluments

Of the five individuals with the highest emoluments for the year ended 31 December 2015, 3 (2014: 3) are Directors or Supervisors whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000<br>(Note 8) |
|---|---|---|
| Salaries and other emoluments | 17,844 | 16,800 |
| Discretionary bonuses (Note 8(i)) | – | 7,069 |
| Contributions to defined contribution retirement schemes | 1,785 | 2,184 |
| | 19,629 | 26,053 |

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

| | 2015 | 2014<br>(Note 8) |
|---|---|---|
| RMB | | |
| 3,000,001 – 3,500,000 | 1 | – |
| 3,500,001 – 4,000,000 | 3 | – |
| 4,500,001 – 5,000,000 | 1 | 2 |
| 5,000,001 – 5,500,000 | – | 2 |
| 5,500,001 – 6,000,000 | – | – |
| 6,500,001 – 7,000,000 | – | 1 |

# 10 Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

| | 2015 | 2014 |
|---|---|---|
| Aggregate amount of relevant loans made by the Group outstanding at year end | 64 | 42 |
| Maximum aggregate amount of relevant loans made by the Group outstanding during the year | 79 | 48 |

# 11 Impairment losses

| | 2015 | 2014 |
|---|---|---|
| Loans and advances to customers (Note 19(c)) | 57,507 | 31,254 |
| Amounts due from banks and other financial institutions (Note 16(a), Note 17(c), Note 18(d)) | 257 | 57 |
| Investments | | |
| – Available-for-sale financial assets (Note 21(b)) | 35 | 40 |
| – Held-to-maturity investments (Note 21(c)) | 20 | (9) |
| – Debt securities classified as receivables (Note 21(d)) | 947 | 4 |
| Others | 500 | 335 |
| | 59,266 | 31,681 |

# 12 Income tax

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

| | 2015 | 2014 |
|---|---|---|
| Current income tax expense | | |
| – Mainland China | 23,415 | 21,470 |
| – Hong Kong | 720 | 738 |
| – Overseas | 133 | 120 |
| Subtotal | 24,268 | 22,328 |
| Deferred taxation | (7,207) | (4,946) |
| Total | 17,061 | 17,382 |

# 12 Income tax *(continued)*

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

| | 2015 | 2014 |
|---|---|---|
| Profit before taxation | 75,079 | 73,431 |
| Tax at the PRC statutory income tax rate of 25% (2014: 25%) | 18,770 | 18,358 |
| Tax effects of the following items: | | |
| – Effects of non-deductible expenses | 833 | 783 |
| – Effects of non-taxable income | (2,365) | (1,623) |
| – Effects of different applicable rates of tax prevailing in other areas | (177) | (136) |
| Income tax expense | 17,061 | 17,382 |

Notes:

(i) The applicable income tax rate for the Bank's operations in Mainland China is 25% during 2015 (2014: 25%).

(ii) The applicable income tax rate in Hong Kong is 16.5% during 2015 (2014: 16.5%).

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

# 13 Other comprehensive income

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount | Tax benefit/ (expense) | Net-of-tax amount | Before-tax amount | Tax benefit/ (expense) | Net-of-tax amount |
| Available-for-sale financial assets: | | | | | | |
| – Net movement in fair value reserve | 5,637 | (1,413) | 4,224 | 9,855 | (2,440) | 7,415 |
| Cash flow hedge: | | | | | | |
| – Net movement in hedging reserve | 539 | (135) | 404 | 1,051 | (263) | 788 |
| Exchange differences | 966 | – | 966 | 427 | – | 427 |
| Equity-accounted investees-share of other comprehensive income | 64 | – | 64 | 35 | – | 35 |
| Remeasurement of defined benefit scheme redesigned through reserve | (64) | 11 | (53) | – | – | – |
| Other comprehensive income | 7,142 | (1,537) | 5,605 | 11,368 | (2,703) | 8,665 |

## (b) Movement in the fair value reserve relating to components of other comprehensive income

| | 2015 | 2014 |
|---|---|---|
| Available-for-sale financial assets: | | |
| Changes in fair value recognised during the period | 4,645 | 7,270 |
| Reclassification adjustments for amounts transferred to profit or loss: | | |
| – On disposal | (421) | 145 |
| Net movement in the fair value reserve during the period recognised in other comprehensive income | 4,224 | 7,415 |
| Cash flow hedge: | | |
| Effective portion of changes in fair value of hedging instruments | 395 | 566 |
| Reclassification adjustment for amounts transferred to profit or loss | | |
| – Realised losses | 9 | 222 |
| Net movement in the hedging reserve during the period recognised in other comprehensive income | 404 | 788 |

# 14 Earnings per share

The calculation of basic earnings per share for the year 2015 and 2014 is based on the net profit attributable to equity shareholders of the Bank and the weighted average number of shares in issue. There is no difference between basic and diluted earnings per share as there are no potentially dilutive shares outstanding during the year 2015 and 2014.

| | 2015 | 2014 |
|---|---|---|
| Net profit attributable to equity shareholders of the Bank | 57,696 | 55,911 |
| Weighted average number of shares in issue (in million) (note) | 25,220 | 25,220 |
| Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB) | 2.29 | 2.22 |

Note: Movements of the share capital are included in Note 40 of the consolidated financial statements.

# 15 Balances with central bank

| | 2015 | 2014 |
|---|---|---|
| Statutory deposit reserve (Note (i)) | 464,686 | 503,089 |
| Surplus deposit reserve (Note (ii)) | 103,803 | 135,145 |
| Fiscal deposits | 1,472 | 1,758 |
| | 569,961 | 639,992 |

Notes:

(i) Statutory deposit reserve funds are deposited with the PBOC and other central banks outside the Mainland China as required and are not available for the Group's daily operations. The statutory deposit reserve funds of the Bank are calculated at 15.0% and 5.0% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2015 (2014: 17.5% and 5.0% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organizations, fiscal deposits (other than budgets), retail deposits, corporate deposits, and net credit balances of entrusted business.

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

# 16 Balances with banks and other financial institutions

| | 2015 | 2014 |
|---|---|---|
| Balances in Mainland | | |
| – Banks | 30,387 | 36,659 |
| – Other financial institutions | 935 | 422 |
| | 31,322 | 37,081 |
| Balances outside Mainland | | |
| – Banks | 32,570 | 18,971 |
| – Other financial institutions | 13 | 8 |
| | 32,583 | 18,979 |
| | 63,905 | 56,060 |
| Less: Impairment allowances | | |
| – Banks | (123) | (71) |
| – Other financial institutions | (3) | (3) |
| | (126) | (74) |
| | 63,779 | 55,986 |

## (a) Movements of allowances for impairment losses

| | 2015 | 2014 |
|---|---|---|
| As at 1 January | 74 | 53 |
| Charge for the year | 52 | 21 |
| As at 31 December | 126 | 74 |

# 17 Placements with banks and other financial institutions

## (a) Analysed by nature of counterparties

| | 2015 | 2014 |
|---|---|---|
| Placements in Mainland | | |
| – Banks | 66,458 | 57,358 |
| – Other financial institutions | 47,067 | 32,965 |
| | 113,525 | 90,323 |
| Placements outside Mainland | | |
| – Banks | 72,219 | 33,808 |
| Less: Impairment allowances | | |
| – Banks | (51) | (46) |
| | 185,693 | 124,085 |

## (b) Analysed by residual maturity

| | 2015 | 2014 |
|---|---|---|
| Maturing | | |
| – Within one month (inclusive) | 133,415 | 87,020 |
| – Between one month and one year (inclusive) | 48,449 | 30,226 |
| – Over one year | 3,829 | 6,839 |
| | 185,693 | 124,085 |

## (c) Movements of allowances for impairment losses

| | 2015 | 2014 |
|---|---|---|
| As at 1 January | 46 | 10 |
| Charge for the year | 5 | 36 |
| As at 31 December | 51 | 46 |

# 18 Amounts held under resale agreements

## (a) Analysed by nature of counterparties

| | 2015 | 2014 |
|---|---|---|
| Amounts held under resale agreements in Mainland | | |
| – Banks | 128,803 | 205,082 |
| – Other financial institutions | 215,321 | 139,873 |
| | 344,124 | 344,955 |
| Amounts held under resale agreements outside Mainland | | |
| – Banks | – | 25 |
| | 344,124 | 344,980 |
| Less: Impairment allowances | | |
| – Banks | (200) | – |
| | 343,924 | 344,980 |

## (b) Analysed by residual maturity

| | 2015 | 2014 |
|---|---|---|
| Maturing | | |
| – Within one month (inclusive) | 296,789 | 191,746 |
| – Between one month and one year (inclusive) | 43,575 | 117,135 |
| – Over one year | 3,560 | 36,099 |
| | 343,924 | 344,980 |

## (c) Analysed by assets types

| | 2015 | 2014 |
|---|---|---|
| Bonds | 210,481 | 137,189 |
| Loans and advances to customers | – | 416 |
| Bills | 106,729 | 97,219 |
| Trust beneficiary rights | 10,693 | 63,484 |
| Asset management schemes | 11,381 | 45,492 |
| Debtor beneficiary rights | 4,640 | 1,180 |
| | 343,924 | 344,980 |

## (d) Movements of allowances for impairment losses

| | 2015 | 2014 |
|---|---|---|
| At 1 January | – | – |
| Charge for the year | 200 | – |
| At 31 December | 200 | – |

# 19 Loans and advances to customers

## (a) Loans and advances to customers

| | 2015 | 2014 |
|---|---|---|
| Corporate loans and advances | 1,507,770 | 1,467,585 |
| Discounted bills | 89,815 | 75,007 |
| Retail loans and advances | 1,226,701 | 971,327 |
| Gross loans and advances to customers | 2,824,286 | 2,513,919 |
| Less: Impairment allowances | | |
| – Individually assessed | (14,624) | (9,577) |
| – Collectively assessed | (70,218) | (55,588) |
| | (84,842) | (65,165) |
| Net loans and advances to customers | 2,739,444 | 2,448,754 |

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

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

*Operation in Mainland China*

| | 2015 | 2014 |
|---|---|---|
| Manufacturing | 318,679 | 342,005 |
| Wholesale and retail | 236,513 | 259,298 |
| Property development | 175,912 | 143,952 |
| Transportation, storage and postal services | 145,473 | 140,548 |
| Production and supply of electric power, heating power, gas and water | 109,942 | 98,514 |
| Construction | 96,387 | 98,350 |
| Leasing and commercial services | 80,788 | 49,343 |
| Mining | 52,178 | 61,179 |
| Water, environment and public utilities management | 33,431 | 30,328 |
| Telecommunications, software and IT services | 28,076 | 20,092 |
| Others | 76,477 | 65,045 |
| Corporate loans and advances | 1,353,856 | 1,308,654 |
| Discounted bills | 89,815 | 75,007 |
| Residential mortgage | 491,290 | 321,424 |
| Credit cards | 312,985 | 219,621 |
| Micro-finance loans | 308,973 | 336,924 |
| Others | 96,828 | 78,731 |
| Retail loans and advances | 1,210,076 | 956,700 |
| Gross loans and advances to customers | 2,653,747 | 2,340,361 |

# 19 Loans and advances to customers *(continued)*

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

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

*Operation outside Mainland China*

| | 2015 | 2014 |
|---|---|---|
| Financial concerns | 46,585 | 29,410 |
| Property development | 37,168 | 36,031 |
| Wholesale and retail | 14,860 | 42,097 |
| Transport and transport equipment | 13,876 | 7,925 |
| Manufacturing | 13,468 | 18,265 |
| Recreational activities | 3,627 | 431 |
| Information technology | 2,025 | 2,221 |
| Others | 22,305 | 22,551 |
| Corporate loans and advances | 153,914 | 158,931 |
| Residential mortgage | 8,165 | 7,754 |
| Credit cards | 259 | 267 |
| Micro-finance loans | 1,804 | 1,889 |
| Others | 6,397 | 4,717 |
| Retail loans and advances | 16,625 | 14,627 |
| Gross loans and advances to customers | 170,539 | 173,558 |

Note: As at 31 December 2015, over 90% of the Group's loans and advances to customers were conducted in People's Republic of China (unchanged pan the positions as at 31 December 2014).

# 19 Loans and advances to customers *(continued)*

## (c) Movements of allowances for impairment losses

| | 2015 | | | |
|---|---|---|---|---|
| | Impairment allowances for loans and advances which are collectively assessed | Impairment allowances for impaired loans and advances | | |
| | | Which are collectively assessed | Which are individually assessed | Total |
| At 1 January | 50,855 | 4,733 | 9,577 | 65,165 |
| Charge for the year (Note 11) | 12,194 | 11,603 | 35,689 | 59,486 |
| Release for the year (Note 11) | (813) | (1) | (1,165) | (1,979) |
| Write-offs | – | (9,154) | (29,229) | (38,383) |
| Unwinding of discount | – | – | (1,137) | (1,137) |
| Recoveries of loans and advances previously written off | – | 625 | 839 | 1,464 |
| Exchange difference | 176 | – | 50 | 226 |
| At 31 December | 62,412 | 7,806 | 14,624 | 84,842 |

| | 2014 | | | |
|---|---|---|---|---|
| | Impairment allowances for loans and advances which are collectively assessed | Impairment allowances for impaired loans and advances | | |
| | | Which are collectively assessed | Which are individually assessed | Total |
| At 1 January | 38,534 | 3,228 | 7,002 | 48,764 |
| Charge for the year (Note 11) | 12,287 | 5,732 | 14,876 | 32,895 |
| Release for the year (Note 11) | (22) | (1) | (1,618) | (1,641) |
| Write-offs | – | (4,456) | (10,461) | (14,917) |
| Unwinding of discount | – | (1) | (654) | (655) |
| Recoveries of loans and advances previously written off | – | 231 | 420 | 651 |
| Exchange difference | 56 | – | 12 | 68 |
| At 31 December | 50,855 | 4,733 | 9,577 | 65,165 |

# 19 Loans and advances to customers *(continued)*

## (d) Loans and advances to customers and allowances for impairment losses

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | Impaired loans and advances | | | | |
| | Loans and advances for which impairment losses are collectively assessed (note (i)) | for which impairment losses are collectively assessed (note (ii)) | for which impairment losses are individually assessed (note (ii)) | Total | Gross impaired loans and advances as a % of gross loans and advances | Fair value of collaterals held against individually assessed impaired loans and advances (note (iii)) |
| Gross loans and advances to | | | | | | |
| – Financial institutions | 85,741 | – | 11 | 85,752 | 0.01 | 7 |
| – Non-financial institution customers | 2,691,149 | 13,070 | 34,315 | 2,738,534 | 1.73 | 8,479 |
| | 2,776,890 | 13,070 | 34,326 | 2,824,286 | 1.68 | 8,486 |
| Less: | | | | | | |
| Impairment allowances for loans and advances to | | | | | | |
| – Financial institutions | (310) | – | (4) | (314) | | |
| – Non-financial institution customers | (62,102) | (7,806) | (14,620) | (84,528) | | |
| | (62,412) | (7,806) | (14,624) | (84,842) | | |
| Net loans and advances to | | | | | | |
| – Financial institutions | 85,431 | – | 7 | 85,438 | | |
| – Non-financial institution customers | 2,629,047 | 5,264 | 19,695 | 2,654,006 | | |
| | 2,714,478 | 5,264 | 19,702 | 2,739,444 | | |

# 19 Loans and advances to customers *(continued)*

## (d) Loans and advances to customers and allowances for impairment losses *(continued)*

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Impaired loans and advances | | | | |
| | Loans and advances for which impairment losses are collectively assessed (note (i)) | for which impairment losses are collectively assessed (note (ii)) | for which impairment losses are individually assessed (note (ii)) | Total | Gross impaired loans and advances as a % of gross loans and advances | Fair value of collaterals held against individually assessed impaired loans and advances (note (iii)) |
| Gross loans and advances to | | | | | | |
| – Financial institutions | 72,183 | – | 1 | 72,184 | 0.00 | – |
| – Non-financial institution customers | 2,413,844 | 7,408 | 20,483 | 2,441,735 | 1.14 | 5,743 |
| | 2,486,027 | 7,408 | 20,484 | 2,513,919 | 1.11 | 5,743 |
| Less: | | | | | | |
| Impairment allowances for loans and advances to | | | | | | |
| – Financial institutions | (87) | – | (1) | (88) | | |
| – Non-financial institution customers | (50,768) | (4,733) | (9,576) | (65,077) | | |
| | (50,855) | (4,733) | (9,577) | (65,165) | | |
| Net loans and advances to | | | | | | |
| – Financial institutions | 72,096 | – | – | 72,096 | | |
| – Non-financial institution customers | 2,363,076 | 2,675 | 10,907 | 2,376,658 | | |
| | 2,435,172 | 2,675 | 10,907 | 2,448,754 | | |

Notes:

(i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis.

(ii) Impaired loans and advances include loans and advances for which objective evidence of impairment has been identified and include impairment losses are assessed in following ways:

– collectively: that is portfolios of homogeneous loans and advances; or

– individually.

(iii) The fair value of collaterals 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.

# 19 Loans and advances to customers *(continued)*

## (e) Finance leases receivables

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Total minimum lease receivables | Unearned finance income | Present value of minimum lease receivables | Total minimum lease receivables | Unearned finance income | Present value of minimum lease receivables |
| Within 1 year (inclusive) | 38,512 | (4,126) | 34,386 | 35,411 | (4,678) | 30,733 |
| Over 1 year but within 5 years (inclusive) | 65,430 | (6,177) | 59,253 | 63,895 | (6,773) | 57,122 |
| Over 5 years | 13,044 | (1,048) | 11,996 | 10,461 | (716) | 9,745 |
| | 116,986 | (11,351) | 105,635 | 109,767 | (12,167) | 97,600 |
| Less: Impairment allowances | | | | | | |
| – Individually assessed | | | (169) | | | (92) |
| – Collectively assessed | | | (1,692) | | | (1,626) |
| Net investment in finance lease receivables | | | 103,774 | | | 95,882 |

As at 31 December 2015, the Group's net investments in finance leases, included in "loans and advances" were nil (2014: Nil).

# 20 Interest receivable

| | 2015 | 2014 |
|---|---|---|
| Debt securities | 13,075 | 11,668 |
| Loans and advances to customers | 8,765 | 7,691 |
| Others | 3,094 | 4,201 |
| | 24,934 | 23,560 |

# 21 Investments

| | Note | 2015 | 2014 |
|---|---|---|---|
| Financial assets at fair value through profit or loss | 21(a) | 59,081 | 40,190 |
| Derivative financial assets | 54(f) | 10,176 | 9,315 |
| Available-for-sale financial assets | 21(b) | 299,559 | 278,526 |
| Held-to-maturity investments | 21(c) | 353,137 | 259,434 |
| Debt securities classified as receivables | 21(d) | 716,064 | 408,752 |
| | | 1,438,017 | 996,217 |

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

| | Note | 2015 | 2014 |
|---|---|---|---|
| Financial assets held for trading | (i) | 50,809 | 33,022 |
| Financial assets designated at fair value through profit or loss | (ii) | 8,272 | 7,168 |
| | | 59,081 | 40,190 |

### (i) Financial assets held for trading

| | 2015 | 2014 (Restated) |
|---|---|---|
| *Listed* | | |
| In Mainland | | |
| – PRC government bonds | 17,543 | 5,351 |
| – Bonds issued by policy banks | 9,622 | 6,165 |
| – Bonds issued by commercial banks and other financial institutions | 4,513 | 5,358 |
| – Other debt securities | 13,472 | 12,744 |
| – Equity investments | 4 | – |
| – Investments in funds | 1 | – |
| Outside Mainland | | |
| – Bonds issued by commercial banks and other financial institutions | 1,347 | 1,100 |
| – Other debt securities | 2,535 | 1,580 |
| – Equity investments | 740 | 712 |
| | 49,777 | 33,010 |
| *Unlisted* | | |
| Outside Mainland | | |
| – Investments in funds | 5 | – |
| | 5 | – |
| Long position in precious metal contracts | 1,027 | 12 |
| | 50,809 | 33,022 |

# 21 Investments *(continued)*

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

### (ii) Financial assets designated at fair value through profit or loss

| | 2015 | 2014 (Restated) |
|---|---|---|
| *Listed* | | |
| In Mainland | | |
| – PRC government bonds | 304 | 299 |
| – Bonds issued by policy banks | 3,874 | 3,970 |
| – Other debt securities | 66 | 63 |
| Outside Mainland | | |
| – Bonds issued by commercial banks and other financial institutions | 420 | 735 |
| – Other debt securities | 2,536 | 1,257 |
| | 7,200 | 6,324 |
| *Unlisted* | | |
| Outside Mainland | | |
| – Bands issued by commercial banks and other financial institutions | 235 | 31 |
| – Other debt securities | 837 | 813 |
| | 1,072 | 844 |
| | 8,272 | 7,168 |

### (iii) Analysed by issuing authority

| | 2015 | 2014 (Restated) |
|---|---|---|
| Issued by: | | |
| – Sovereigns | 17,847 | 5,651 |
| – Banks and other financial institutions | 21,784 | 18,018 |
| – Corporates | 19,450 | 16,521 |
| | 59,081 | 40,190 |

# 21 Investments *(continued)*

## (b) Available-for-sale financial assets

| | 2015 | 2014 (Restated) |
|---|---|---|
| *Listed* | | |
| In Mainland | | |
| – PRC government bonds | 94,381 | 77,265 |
| – Bonds issued by PBOC | – | 99 |
| – Bonds issued by policy banks | 66,726 | 90,921 |
| – Bonds issued by commercial banks and other financial institutions | 37,742 | 20,454 |
| – Other debt securities | 49,238 | 61,294 |
| – Equity investments | 311 | – |
| – Investments in funds | 20 | 243 |
| Outside Mainland | | |
| – PRC government bonds | 48 | – |
| – Bonds issued by commercial banks and other financial institutions | 5,912 | 3,468 |
| – Other debt securities | 8,246 | 3,945 |
| – Equity investments | 1,273 | 1,258 |
| – Investments in funds | 62 | 20 |
| | 263,959 | 258,967 |
| Less: Impairment allowances | (239) | (169) |
| | 263,720 | 258,798 |
| *Unlisted* | | |
| In Mainland | | |
| – Bonds issued by PBOC | 94 | – |
| – Bonds issued by policy banks | – | 302 |
| – Bonds issued by commercial banks and other financial institutions | 12,602 | 3,393 |
| – Other debt securities | 1,214 | 2,376 |
| – Equity investments | 1,091 | 835 |
| – Investments in funds | 723 | 29 |
| Outside Mainland | | |
| – Bonds issued by policy banks | 2,096 | – |
| – Bonds issued by commercial banks and other financial institutions | 9,979 | 6,875 |
| – Other debt securities | 8,030 | 6,213 |
| – Equity investments | 231 | 122 |
| – Investments in funds | 207 | 25 |
| | 36,267 | 20,170 |
| Less: Impairment allowances | (428) | (442) |
| | 35,839 | 19,728 |
| | 299,559 | 278,526 |

# 21 Investments *(continued)*

## (b) Available-for-sale financial assets *(continued)*

| | 2015 | 2014 |
|---|---|---|
| Issued by: | | |
| – Sovereigns | 102,761 | 83,346 |
| – Banks and other financial institutions | 135,896 | 125,911 |
| – Corporates | 60,902 | 69,269 |
| | 299,559 | 278,526 |

Movements of allowances for impairment losses

| | 2015 | 2014 |
|---|---|---|
| At 1 January | 611 | 574 |
| Charge for the year | 35 | 43 |
| Releases for the year | – | (3) |
| Write-offs | (2) | (14) |
| Exchange difference | 23 | 11 |
| At 31 December | 667 | 611 |

# 21 Investments *(continued)*

## (c) Held-to-maturity investments

| | 2015 | 2014 (Restated) |
|---|---|---|
| *Listed* | | |
| In Mainland | | |
| – PRC government bonds | 170,540 | 109,428 |
| – Bonds issued by policy banks | 165,890 | 133,197 |
| – Bonds issued by commercial banks and other financial institutions | 12,656 | 8,822 |
| – Other debt securities | 865 | 2,816 |
| Outside Mainland | | |
| – PRC government bonds | 488 | 491 |
| – Bonds issued by commercial banks and other financial institutions | 1,542 | 588 |
| – Other debt securities | 729 | 803 |
| | 352,710 | 256,145 |
| Less: Impairment allowances | (95) | (71) |
| | 352,615 | 256,074 |
| *Unlisted* | | |
| In Mainland | | |
| – Other debt securities | 376 | – |
| Outside Mainland | | |
| – Bonds issued by commercial banks and other financial institutions | 16 | – |
| – Other debt securities | 130 | 3,360 |
| | 522 | 3,360 |
| Less: Impairment allowances | – | – |
| | 522 | 3,360 |
| | 353,137 | 259,434 |

| | 2015 | 2014 |
|---|---|---|
| Issued by: | | |
| – Sovereigns | 171,115 | 113,350 |
| – Banks and other financial institutions | 180,402 | 142,583 |
| – Corporates | 1,620 | 3,501 |
| | 353,137 | 259,434 |
| Fair value of listed debt securities | 372,158 | 261,326 |

For the year ended 31 December 2015, the Group did not dispose debt securities classified as held-to-maturity prior to their maturity (2014: Nil).

### Movements of allowances for impairment losses

| | 2015 | 2014 |
|---|---|---|
| At 1 January | 71 | 78 |
| Charge for the year | 20 | – |
| Release for the year | – | (9) |
| Exchange difference | 4 | 2 |
| At 31 December | 95 | 71 |

# 21 Investments *(continued)*

## (d) Debt securities classified as receivables

| | 2015 | 2014 |
|---|---|---|
| *Unlisted* | | |
| In Mainland | | |
| – PRC government bonds | 747 | 594 |
| – Bonds issued by commercial banks and other financial institutions | 11,089 | 21,167 |
| – Other debt securities | 20,389 | 21,335 |
| – Insurance asset management schemes | 48,198 | 56,330 |
| – Trust beneficiary rights | 78,067 | 112,038 |
| – Broker asset management schemes | 245,053 | 111,393 |
| – Fund asset management schemes and others | 313,473 | 85,901 |
| Outside Mainland | | |
| – Bonds issued by commercial banks and other financial institutions | 65 | 62 |
| | 717,081 | 408,820 |
| Less: Impairment allowances | (1,017) | (68) |
| | 716,064 | 408,752 |

| | 2015 | 2014 |
|---|---|---|
| Issued by: | | |
| – Sovereigns | 747 | 594 |
| – Banks and other financial institutions | 694,928 | 386,823 |
| – Corporates | 20,389 | 21,335 |
| | 716,064 | 408,752 |

Movements of allowances for impairment losses

| | 2015 | 2014 |
|---|---|---|
| At 1 January | 68 | 63 |
| Charge for the year | 947 | 4 |
| Exchange difference | 2 | 1 |
| At 31 December | 1,017 | 68 |

# 21 Investments *(continued)*

## (e) Financial liabilities at fair value through profit or loss

| | Note | 2015 | 2014 |
|---|---|---|---|
| Financial liabilities held for trading | (i) | 3,348 | 1,007 |
| Financial liabilities designated at fair value through profit or loss | (ii) | 16,879 | 12,362 |
| | | 20,227 | 13,369 |

### (i) Financial liabilities held for trading

| | 2015 | 2014 |
|---|---|---|
| *Listed* | | |
| – Equity securities at fair value | 18 | 30 |
| Precious metal relevant financial liabilities | 3,330 | 977 |
| | 3,348 | 1,007 |

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

| | 2015 | 2014 |
|---|---|---|
| In Mainland | | |
| – Precious metal contracts with other banks | 2,087 | 2,029 |
| – Others | 2,352 | 2,214 |
| Outside Mainland | | |
| – Certificates of deposit issued | 3,985 | 3,020 |
| – Debt securities issued | 8,455 | 5,099 |
| | 16,879 | 12,362 |

As at the end of reporting period, the difference between the fair value of the Group's financial liabilities designated at fair value through profit or loss and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2015 and 2014.

# 21 Investments *(continued)*

## (f) Financial instruments at fair value

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

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

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

Significant valuation issues are reported to the Audit Committee of the Board.

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

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 as at the end of the reporting period in which they occur.

The Group's assets and liabilities measured at fair value are measured on a recurring basis. The Group does not have assets nor liabilities measured at fair value on a non-recurring basis.

# 21 Investments *(continued)*

## (f) Financial instruments at fair value *(continued)*

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

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| *Assets* | | | | |
| Financial assets held for trading | | | | |
| – Debt securities | 6,028 | 43,004 | – | 49,032 |
| – Long position in precious metal contracts | – | 1,027 | – | 1,027 |
| – Equity investments | 744 | – | – | 744 |
| – Investments in funds | 1 | 5 | – | 6 |
| | 6,773 | 44,036 | – | 50,809 |
| Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | 3,469 | 4,803 | – | 8,272 |
| Derivative financial assets | – | 10,172 | 4 | 10,176 |
| Available-for-sale financial assets | | | | |
| – Debt securities | 33,538 | 262,205 | – | 295,743 |
| – Equity investments | 1,638 | 80 | 1,104 | 2,822 |
| – Investments in funds | 66 | 790 | 138 | 994 |
| | 35,242 | 263,075 | 1,242 | 299,559 |
| | 45,484 | 322,086 | 1,246 | 368,816 |
| *Liabilities* | | | | |
| Financial liabilities held for trading | | | | |
| – Precious metal relevant financial liabilities | – | 3,330 | – | 3,330 |
| – Short position in equity securities | 18 | – | – | 18 |
| | 18 | 3,330 | – | 3,348 |
| Financial liabilities designated at fair value through profit or loss | | | | |
| – Precious metal contracts with other banks | – | 2,087 | – | 2,087 |
| – Certificates of deposit issued | – | 1,683 | 2,302 | 3,985 |
| – Debt securities issued | – | 8,455 | – | 8,455 |
| – Others | – | 2,352 | – | 2,352 |
| | – | 14,577 | 2,302 | 16,879 |
| Derivative financial liabilities | – | 7,575 | – | 7,575 |
| | 18 | 25,482 | 2,302 | 27,802 |

# 21 Investments *(continued)*

## (f) Financial instruments at fair value *(continued)*

| | 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| *Assets* | | | | |
| Financial assets held for trading | | | | |
| – Debt securities | 3,988 | 28,310 | – | 32,298 |
| – Equity investments | 712 | – | – | 712 |
| – Long position in precious metal contracts | – | 12 | – | 12 |
| | 4,700 | 28,322 | – | 33,022 |
| Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | 1,454 | 5,589 | 125 | 7,168 |
| Derivative financial assets | – | 9,300 | 15 | 9,315 |
| Available-for-sale financial assets | | | | |
| – Debt securities | 26,737 | 249,357 | – | 276,094 |
| – Equity investments | 1,316 | 71 | 728 | 2,115 |
| – Investments in funds | 263 | 29 | 25 | 317 |
| | 28,316 | 249,457 | 753 | 278,526 |
| | 34,470 | 292,668 | 893 | 328,031 |
| *Liabilities* | | | | |
| Financial liabilities held for trading | | | | |
| – Precious metal relevant financial liabilities | – | 977 | – | 977 |
| – Short position in equity securities | 30 | – | – | 30 |
| | 30 | 977 | – | 1,007 |
| Financial liabilities designated at fair value through profit or loss | | | | |
| – Precious metal contracts with other banks | – | 2,029 | – | 2,029 |
| – Certificates of deposit issued | – | 410 | 2,610 | 3,020 |
| – Debt securities issued | – | 5,099 | – | 5,099 |
| – Others | – | 2,214 | – | 2,214 |
| | – | 9,752 | 2,610 | 12,362 |
| Derivative financial liabilities | – | 10,246 | – | 10,246 |
| | 30 | 20,975 | 2,610 | 23,615 |

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

# 21 Investments *(continued)*

## (f) Financial instruments at fair value *(continued)*

### (i) 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.

### (ii) 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.

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

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

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

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

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

| | Fair value as at 31 December 2015 | Valuation techniques | Unobservable input |
|---|---|---|---|
| Unlisted available-for-sale equity investments | 346 | Market comparison approach | Liquidity discount |
| Unlisted available-for-sale equity investments | 758 | Discounted cash flow | Risk-adjusted discount rate |
| Unlisted available-for-sale fund investments | 138 | Discounted cash flow | Risk-adjusted discount rate |
| Unlisted derivative financial instruments | 4 | Binomial lattice Model | Volatility |
| Financial liabilities designated at fair value through profit or loss – Certificates of deposit issued | 2,302 | Discounted cash flow | Risk-adjusted discount rate |

# 21 Investments *(continued)*

## (f) Financial instruments at fair value *(continued)*

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

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

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

*Assets*

| | Derivative financial assets | Financial assets designated at fair value through profit or loss-debt securities | Available-for-sale financial assets | Total |
|---|---|---|---|---|
| At 1 January 2015 | 15 | 125 | 753 | 893 |
| Profit or loss | | | | |
| – In profit or loss | (3) | – | 20 | 17 |
| – In other comprehensive income | – | – | 21 | 21 |
| Purchases | – | – | 570 | 570 |
| Disposals and settlement on maturity | (8) | (125) | (122) | (255) |
| At 31 December 2015 | 4 | – | 1,242 | 1,246 |
| Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period | (3) | – | 20 | 17 |

*Liabilities*

| | Financial liabilities designated at fair value through profit or loss – certificates of deposit issued |
|---|---|
| At 1 January 2015 | 2,610 |
| In profit or loss | 122 |
| Issues | – |
| Disposals and settlement on maturity | (430) |
| At 31 December 2015 | 2,302 |
| Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period | 121 |

# 21 Investments *(continued)*

## (f) Financial instruments at fair value *(continued)*

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

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

*Assets*

| | Derivative financial assets | Financial assets designated at fair value through profit or loss-debt securities | Available-for-sale financial assets | Total |
|---|---|---|---|---|
| At 1 January 2014 | 31 | 125 | 702 | 858 |
| Profit or loss | | | | |
| – In profit or loss | – | – | (36) | (36) |
| – In other comprehensive income | – | – | (4) | (4) |
| Purchases | – | – | 91 | 91 |
| Disposals and settlement on maturity | (16) | – | – | (16) |
| At 31 December 2014 | 15 | 125 | 753 | 893 |
| Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period | – | – | – | – |

*Liabilities*

| | Financial liabilities designated at fair value through profit or loss – certificates of deposit issued |
|---|---|
| At 1 January 2014 | 5,296 |
| In profit or loss | 45 |
| Issues | 1,056 |
| Disposals and settlement on maturity | (3,787) |
| At 31 December 2014 | 2,610 |
| Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period | 39 |

# 21 Investments *(continued)*

## (f) Financial instruments at fair value *(continued)*

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

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

| | 2015 | |
|---|---|---|
| | Effect on profit or loss or other comprehensive income | |
| | Favourable | (Unfavourable) |
| Available-for-sale financial assets | | |
| – Equity investments | 111 | (111) |
| – Investments in funds | 13 | (13) |
| Financial liabilities designated at fair value through profit or loss | | |
| – Certificates of deposit issued | 230 | (230) |

| | 2014 | |
|---|---|---|
| | Effect on profit or loss or other comprehensive income | |
| | Favourable | (Unfavourable) |
| Financial assets designated at fair value through profit or loss | | |
| – Debt securities | 13 | (13) |
| Derivative financial assets | 1 | (1) |
| Available-for-sale financial assets | | |
| – Equity investments | 73 | (73) |
| – Investments in funds | 2 | (2) |
| Financial liabilities designated at fair value through profit or loss | | |
| – Certificates of deposit issued | 261 | (261) |

*(3) Transfers between levels 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 levels are deemed*

During the year ended 31 December 2015, there were no transfers between levels for financial instruments which are measured at fair value on an on-going basis. The group recognises the transfers between levels at the end of the reporting period during which the changes have occurred.

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

During the year ended 31 December 2015, the Group has not changed the valuation technique of the above financial assets which are measured at fair value on an on-going basis.

# 22 Investments in subsidiaries

The following list contains only particulars of subsidiaries which principally affected the 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 2(d) 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 | HKD1,000 | 100% | Financial advisory services | Limited company | Tian Huiyu |
| CMB Finance Lease Company Limited (note (ii)) | Shanghai | RMB6,000 | 100% | Finance lease | Limited company | Lian Bolin |
| Wing Lung Bank Limited (note (iii)) | Hong Kong | HKD1,161 | 100% | Banking | Limited company | Tian Huiyu |
| China Merchants Fund Management Co., Ltd (note (iv)) | Shenzhen | RMB210 | 55% | Asset management | Limited company | Li Hao |

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" on 28 July 2015 which agreed that the Bank made capital contribution of USD400 million (or its equivalent) to its primary subsidiary, CMBICHC. The capital contribution didn't complete until 31 December 2015, and completed on 20 January 2016.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the CBRC 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) Wing Lung Bank Limited ("WLB") is a wholly owned subsidiary of the Bank acquired in 2008 by way of agreement. The acquisition was completed on 15 January 2009. 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 shareholdings 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.

# 23 Interest in joint ventures

| | 2015 | 2014 |
|---|---|---|
| Unlisted shares, at cost | – | – |
| Share of net assets | 2,727 | 1,458 |
| Loans to joint ventures | 5 | 7 |
| | 2,732 | 1,465 |
| Share of profits for the year | 134 | 156 |
| Share of other comprehensive income for the year | 64 | 35 |

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 | Principal activity |
|---|---|---|---|---|---|
| CIGNA &CMB Life Insurance Company Limited (note(i)) | Limited company | Shenzhen | RMB1,450,000 | 50.00% | Life insurance business |
| Bank Consortium Holding Limited (note (ii)) | Limited company | Hong Kong | HKD150,000 | 13.33% | Provision of trustee, administration and custodian services for retirement schemes |
| Joint Electronic Teller Services Limited (note (iii)) | Limited company | Hong Kong | HKD10,024 | 2.88% | Provision of ATM network services |
| Hong Kong Life Insurance Limited | Limited company | Hong Kong | HKD420,000 | 16.67% | Life insurance business |
| BC Reinsurance Limited | Limited company | Hong Kong | HKD200,000 | 21.00% | Reinsurance business |
| i-Tech Solutions Limited | Limited company | Hong Kong | HKD6,000 | 50.00% | Electronic document processing |
| Shenzhen Zhaoyin Synergetic Fund Management Co.,Ltd. | Limited company | Shenzhen | RMB10,000 | 51.00% | Fund management |
| Shenzhen Synergetic Hesheng Merge& Acquisition Fund | Partnership enterprise | Shenzhen | RMB484,160 | 5.16% | Investment |
| Shenzhen Lianzhao Information Technology Co., Ltd. | Limited company | Shenzhen | RMB40,000 | 50.00% | Computer network service |
| Merchants Union Consumer Finance Company Limited (note (iv)) | Limited company | Shenzhen | RMB2,000,000 | 50.00% | Consumer finance |
| CMB Qianhai Financial Assets Exchange Co., Ltd. | Limited company | Shenzhen | RMB100,000 | 49.00% | Financial assets exchange platform and advisory services |

# 23 Interest in joint ventures *(continued)*

Notes:

(i) The Group holds 50.00% equity interests of CIGNA & CMB Life Insurance Company Limited ("CIGNA & CMB Life"), and Life Insurance Company of North America ("INA") holds 50.00% equity interests of CIGNA & CMB Life. CIGNA & CMB Life is the only joint venture on the Bank's level. The Bank and INA share the joint venture's profits, risks and losses based on the above proportion of their shareholdings. The Bank's investment in CIGNA & CMB Life shall be accounted as an investment in a joint venture.

(ii) The Bank's subsidiary, WLB, holds 14.29% of the entity's common share and is entitled to 13.33% of the paid dividends.

(iii) The Bank's subsidiary, WLB, is one of the five founders of the entity and jointly controls the entity. WLB holds 20.00% of the entity's common share and is entitled to 2.88% of the paid dividends.

(iv) The Bank's subsidiary, WLB, and China United Network Communications Limited ("CUNC"), which is a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"). CBRC has approved the operation of MUCFC on 3 March 2015. WLB and CUNC hold 50.00% equity interests of MUCFC and share the risks, profits and losses based on the above proportion of their shareholdings.

Summarised financial information of the joint ventures which are individually material to the Group is as below:

(i) CIGNA & CMB Life Insurance Company Limited:

| | Assets | Liabilities | Equity | Revenue | Profit or loss | Other comprehensive income | Total comprehensive income | Cash and cash equivalents | Depreciation and amortisation | Income tax |
|---|---|---|---|---|---|---|---|---|---|---|
| 2015 | | | | | | | | | | |
| 100 per cent | 18,164 | 15,408 | 2,756 | 8,062 | 297 | 54 | 351 | 370 | 23 | 85 |
| Group's effective interest | 9,082 | 7,704 | 1,378 | 4,031 | 149 | 27 | 176 | 185 | 11 | 42 |
| 2014 | | | | | | | | | | |
| 100 per cent | 14,448 | 12,039 | 2,409 | 5,194 | 219 | 69 | 288 | 456 | 20 | 68 |
| Group's effective interest | 7,224 | 6,020 | 1,204 | 2,597 | 110 | 34 | 144 | 228 | 10 | 34 |

(ii) MUCFC:

| | Assets | Liabilities | Equity | Revenue | Profit or loss | Other comprehensive income | Total comprehensive income | Cash and cash equivalents | Depreciation and amortisation | Income tax |
|---|---|---|---|---|---|---|---|---|---|---|
| 2015 | | | | | | | | | | |
| 100 per cent | 2,105 | 190 | 1,915 | 131 | (84) | – | (84) | 80 | 2 | – |
| Group's effective interest | 1,053 | 95 | 958 | 66 | (42) | – | (42) | 40 | 1 | – |

Summarised financial information of the joint ventures that are not individually material to the Group (others):

| | Profit or loss | Other comprehensive income | Total comprehensive income |
|---|---|---|---|
| 2015 | | | |
| 100 per cent | 199 | 209 | 408 |
| Group's effective interest | 28 | 37 | 65 |
| 2014 | | | |
| 100 per cent | 206 | 6 | 212 |
| Group's effective interest | 30 | 1 | 31 |

# 24 Interest in associates

| | 2015 | 2014 |
|---|---|---|
| Share of net assets | 52 | 17 |
| Goodwill | 2 | 2 |
| | 54 | 19 |
| Share of profits for the year | 2 | 2 |

The following list contains the information as of 31 December 2015 of associates, which are unlisted corporate entities and principally affected the results or assets of the Group:

| Name of associate | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital (in thousands) | Group's effective interest | Principal activity |
|---|---|---|---|---|---|
| Professional Liability Underwriting Services Limited | Limited company | Hong Kong | HKD3,000 | 27.00% | Insurance underwriting |
| Beijing Zhongguancun Gazelle Investment Fund Management Limited | Limited company | Beijing | RMB30,000 | 25.00% | Fund Management |
| Shanghai Rosefinch Jiawu Investment Center | Limited partnership | Shanghai | HKD86,500 | 49.00% | Investment |

Summarised financial information of the associates that are not individually material to the Group:

| | Profit or loss | Other comprehensive income | Total comprehensive income |
|---|---|---|---|
| 2015 | | | |
| 100 per cent | 5 | – | 5 |
| Group's effective interest | 1 | – | 1 |
| 2014 | | | |
| 100 per cent | 7 | – | 7 |
| Group's effective interest | 2 | – | 2 |

# 25 Property and equipment

| | Land and buildings | Construction in progress | Computer equipment | Leasehold improvements | Aircrafts and vessels | Motor vehicles and others | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At 1 January 2015 | 17,166 | 6,806 | 7,238 | 4,914 | 1,872 | 5,985 | 43,981 |
| Additions | 68 | 1,772 | 1,270 | 761 | 3,765 | 733 | 8,369 |
| Reclassification and transfers | 4,291 | (4,444) | 1 | 30 | – | 8 | (114) |
| Disposals/write-offs | (38) | – | (259) | (108) | – | (452) | (857) |
| Exchange difference | 137 | – | 4 | 11 | 115 | 5 | 272 |
| At 31 December 2015 | 21,624 | 4,134 | 8,254 | 5,608 | 5,752 | 6,279 | 51,651 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2015 | 4,947 | – | 4,947 | 2,316 | 227 | 4,099 | 16,536 |
| Depreciation | 1,102 | – | 1,081 | 720 | 220 | 836 | 3,959 |
| Reclassification and transfers | (40) | – | 1 | (1) | – | 1 | (39) |
| Disposals/write-offs | (15) | – | (130) | (83) | – | (448) | (676) |
| Exchange difference | (16) | – | (5) | 4 | 50 | 3 | 36 |
| At 31 December 2015 | 5,978 | – | 5,894 | 2,956 | 497 | 4,491 | 19,816 |
| Net book value: | | | | | | | |
| At 31 December 2015 | 15,646 | 4,134 | 2,360 | 2,652 | 5,255 | 1,788 | 31,835 |
| At 1 January 2015 | 12,219 | 6,806 | 2,291 | 2,598 | 1,645 | 1,886 | 27,445 |

| | Land and buildings | Construction in progress | Computer equipment | Leasehold improvements | Aircrafts and vessels | Motor vehicles and others | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At 1 January 2014 | 16,879 | 4,241 | 5,989 | 6,185 | 1,408 | 5,533 | 40,235 |
| Additions | 343 | 2,598 | 2,692 | 819 | – | 1,021 | 7,473 |
| Reclassification and transfers | (18) | (1) | 18 | 29 | 464 | (54) | 438 |
| Disposals/write-offs | (112) | (33) | (1,490) | (2,125) | – | (548) | (4,308) |
| Exchange difference | 74 | 1 | 29 | 6 | – | 33 | 143 |
| At 31 December 2014 | 17,166 | 6,806 | 7,238 | 4,914 | 1,872 | 5,985 | 43,981 |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2014 | 4,106 | – | 4,317 | 3,670 | 153 | 3,790 | 16,036 |
| Depreciation | 836 | – | 1,016 | 716 | 74 | 774 | 3,416 |
| Reclassification and transfers | 5 | – | (12) | 29 | – | (23) | (1) |
| Disposals/write-offs | (33) | – | (402) | (2,108) | – | (468) | (3,011) |
| Exchange difference | 33 | – | 28 | 9 | – | 26 | 96 |
| At 31 December 2014 | 4,947 | – | 4,947 | 2,316 | 227 | 4,099 | 16,536 |
| Net book value: | | | | | | | |
| At 31 December 2014 | 12,219 | 6,806 | 2,291 | 2,598 | 1,645 | 1,886 | 27,445 |
| At 1 January 2014 | 12,773 | 4,241 | 1,672 | 2,515 | 1,255 | 1,743 | 24,199 |

# 25 Property and equipment *(continued)*

## (a) Analysed by remaining terms of leases

The net book value of land and buildings at the end of the reporting period is analysed by the remaining terms of the leases as follows:

| | 2015 | 2014 |
|---|---|---|
| Held in Mainland China | | |
| – Long-term leases (over 50 years) | 335 | 374 |
| – Medium-term leases (10 – 50 years) | 13,439 | 9,832 |
| | 13,774 | 10,206 |
| Held in Hong Kong | | |
| – Long-term leases (over 50 years) | 999 | 1,069 |
| – Medium-term leases (10 – 50 years) | 855 | 925 |
| | 1,854 | 1,994 |
| Held overseas | | |
| – Freehold | 18 | 19 |
| | 15,646 | 12,219 |

(b) As at 31 December 2015, the Board of Directors considered that there is no impairment loss on property and equipment (2014: nil).

(c) As at 31 December 2015, the process of obtaining the registration license for the Group's properties with an aggregate net carrying value of RMB270 million (2014: RMB560 million) was still in progress.

(d) As at 31 December 2015, the Group has no significant unused property and equipment (2014: nil).

# 26 Investment properties

| | 2015 | 2014 |
|---|---|---|
| **Cost:** | | |
| At 1 January | 2,477 | 2,379 |
| Transfers | 140 | 68 |
| Exchange difference | 77 | 30 |
| At 31 December | 2,694 | 2,477 |
| **Accumulated depreciation:** | | |
| At 1 January | 793 | 678 |
| Depreciation | 127 | 119 |
| Transfers | 41 | (14) |
| Exchange difference | 25 | 10 |
| At 31 December | 986 | 793 |
| **Net book value:** | | |
| At 31 December | 1,708 | 1,684 |
| At 1 January | 1,684 | 1,701 |

## (a) Analysed by remaining terms of leases

The net book value of investment properties at the end of the reporting period is analysed by the remaining terms of the leases as follows:

| | 2015 | 2014 |
|---|---|---|
| Held in Mainland China | | |
| – Medium-term leases (10 – 50 years) | 550 | 596 |
| | 550 | 596 |
| Held in Hong Kong | | |
| – Long leases (over 50 years) | 99 | – |
| – Medium-term leases (10 – 50 years) | 1,059 | 1,088 |
| | 1,158 | 1,088 |
| | 1,708 | 1,684 |

(b) Investment properties of the Group mainly represent the leasing properties of WLB and the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. As at 31 December 2015, fair value of these properties was RMB4,784 million (2014: RMB4,216 million). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

| | 2015 | 2014 |
|---|---|---|
| Within 1 year (inclusive) | 192 | 193 |
| 1 year to 5 years (inclusive) | 206 | 257 |
| Over 5 years | 14 | 21 |
| | 412 | 471 |

# 27 Intangible assets

| | Land use right | Software | Core deposit | Total |
|---|---|---|---|---|
| Cost/valuation: | | | | |
| At 1 January 2015 | 1,532 | 2,424 | 1,059 | 5,015 |
| Additions | 6 | 709 | – | 715 |
| Transfers | (24) | – | – | (24) |
| Exchange difference | 3 | 2 | 43 | 48 |
| At 31 December 2015 | 1,517 | 3,135 | 1,102 | 5,754 |
| Amortisation: | | | | |
| At 1 January 2015 | 207 | 1,271 | 245 | 1,723 |
| Additions | 35 | 360 | 32 | 427 |
| Transfers | 1 | – | – | 1 |
| Exchange difference | – | 2 | 6 | 8 |
| At 31 December 2015 | 243 | 1,633 | 283 | 2,159 |
| Net book value: | | | | |
| At 31 December 2015 | 1,274 | 1,502 | 819 | 3,595 |
| At 1 January 2015 | 1,325 | 1,153 | 814 | 3,292 |

| | Land use right | Software | Core deposit | Total |
|---|---|---|---|---|
| Cost/valuation: | | | | |
| At 1 January 2014 | 1,297 | 1,991 | 1,034 | 4,322 |
| Additions | 220 | 432 | – | 652 |
| Transfers | 6 | – | – | 6 |
| Exchange difference | 9 | 1 | 25 | 35 |
| At 31 December 2014 | 1,532 | 2,424 | 1,059 | 5,015 |
| Amortisation: | | | | |
| At 1 January 2014 | 171 | 956 | 199 | 1,326 |
| Additions | 35 | 314 | 41 | 390 |
| Transfers | 1 | – | – | 1 |
| Exchange difference | – | 1 | 5 | 6 |
| At 31 December 2014 | 207 | 1,271 | 245 | 1,723 |
| Net book value: | | | | |
| At 31 December 2014 | 1,325 | 1,153 | 814 | 3,292 |
| At 1 January 2014 | 1,126 | 1,035 | 835 | 2,996 |

# 28 Goodwill

| | As at 1 January | Addition in the year | Release in the year | As at 31 December | Impairment loss | Net value at 31 December |
|---|---|---|---|---|---|---|
| WLB (Note (i)) | 10,177 | – | – | 10,177 | (579) | 9,598 |
| CMFM (Note (ii)) | 355 | – | – | 355 | – | 355 |
| CMBICHC (Note (iii)) | – | 1 | – | 1 | – | 1 |
| Total | 10,532 | 1 | – | 10,533 | (579) | 9,954 |

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interests in WLB. On the acquisition date, the fair value of WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. Please find the details about WLB in Note 22.

(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 merger cost over the fair value of the identifiable net assets was recognised as goodwill. Please find the details about CMFM in Note 22.

(iii) On 1 April 2015, CMBICHC acquired a 100% equity interests in Shenzhen Rongbo Information and Technology Corporation Limited ("Rongbo"). On the acquisition date, the fair value of Rongbo's identifiable net assets was RMB2.60 million. A sum of RMB1 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. Rongbo's principal activities include development and sale of computer software and hardware, sale of communication equipment and office automation equipments, advisory service of computer technology and information.

## Impairment test for CGU containing goodwill

Goodwill is allocated to the Group's CGU, WLB which was acquired on 30 September 2008 and CMFM which was acquired on 28 November 2013.

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

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of WLB and CMFM. A pre-tax discount rate of 12% and 15% (2014: 12% and 12%) was used.

# 29 Deferred tax assets, deferred tax liabilities

| | **2015** | 2014 |
|---|---|---|
| Deferred tax assets | **16,020** | 10,291 |
| Deferred tax liabilities | **(867)** | (771) |
| Net amount | **15,153** | 9,520 |

# 29 Deferred tax assets, deferred tax liabilities *(continued)*

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

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Deductible/ (taxable) temporary difference | Deferred tax | Deductible/ (taxable) temporary difference | Deferred tax |
| **Deferred tax assets** | | | | |
| Impairment allowances for loans and advances to customers and other assets | 63,217 | 15,783 | 36,647 | 9,150 |
| Investment revaluation reserve | (7,614) | (1,905) | (2,203) | (550) |
| Salary and welfare payable | 9,669 | 2,418 | 5,290 | 1,322 |
| Others | (1,087) | (276) | 1,512 | 369 |
| Total | 64,185 | 16,020 | 41,246 | 10,291 |
| **Deferred tax liabilities** | | | | |
| Impairment allowances on loans and advances to customers and other assets | 249 | 42 | 212 | 34 |
| Investment revaluation reserve | (252) | (61) | (13) | (3) |
| Others | (5,304) | (848) | (5,022) | (802) |
| Total | (5,307) | (867) | (4,823) | (771) |

## (b) Movements of deferred tax

| | Impairment allowances on loans and advances to customers and other assets | Investment revaluation reserve | Salary and welfare payable | Others | Total |
|---|---|---|---|---|---|
| At 1 January 2015 | 9,184 | (553) | 1,322 | (433) | 9,520 |
| Recognised in profit or loss | 6,638 | – | 1,096 | (527) | 7,207 |
| Recognised in other comprehensive Income | – | (1,413) | – | (124) | (1,537) |
| Exchange difference | 3 | – | – | (40) | (37) |
| At 31 December 2015 | 15,825 | (1,966) | 2,418 | (1,124) | 15,153 |

| | Impairment allowances on loans and advances to customers and other assets | Investment revaluation reserve | Salary and welfare payable | Others | Total |
|---|---|---|---|---|---|
| At 1 January 2014 | 4,009 | 1,887 | 1,621 | (223) | 7,294 |
| Recognised in profit or loss | 5,174 | – | (299) | 71 | 4,946 |
| Recognised in other comprehensive income | – | (2,440) | – | (263) | (2,703) |
| Exchange difference | 1 | – | – | (18) | (17) |
| At 31 December 2014 | 9,184 | (553) | 1,322 | (433) | 9,520 |

# 30 Other assets

| | 2015 | 2014 |
|---|---|---|
| Amounts pending for settlement | 4,919 | 3,883 |
| Prepaid lease payments | 1,091 | 913 |
| Repossessed assets (Note (a)) | 691 | 455 |
| Guarantee deposits | 463 | 926 |
| Recoverable from reinsurers | 229 | 225 |
| Prepayment for lease improvement and other miscellaneous items | 158 | 325 |
| Premium receivables | 129 | 135 |
| Defined benefit plan (Note 37(b)) | 27 | 70 |
| Others | 5,141 | 7,159 |
| Total | 12,848 | 14,091 |

## (a) Repossessed assets

| | 2015 | 2014 |
|---|---|---|
| Residential properties | 1,044 | 746 |
| Others | 628 | 652 |
| Total | 1,672 | 1,398 |
| Less: Impairment allowances | (981) | (943) |
| Net repossessed assets | 691 | 455 |

Notes:

(i) In 2015, the Group has disposed repossessed assets with total cost of RMB73 million (2014: RMB444 million).

(ii) The Group plans to dispose the repossessed assets by auction, bid and transfer.

# 31 Deposits from banks and other financial institutions

| | 2015 | 2014 |
|---|---|---|
| In Mainland | | |
| – Banks | 176,934 | 203,283 |
| – Other financial institutions | 527,101 | 386,030 |
| | 704,035 | 589,313 |
| Outside Mainland | | |
| – Banks | 7,526 | 108,135 |
| | 711,561 | 697,448 |

# 32 Placements from banks and other financial institutions

| | 2015 | 2014 |
|---|---|---|
| In Mainland | | |
| – Banks | 165,471 | 77,917 |
| – Other financial institutions | 1,100 | – |
| | 166,571 | 77,917 |
| Outside Mainland | | |
| – Banks | 12,200 | 16,686 |
| | 178,771 | 94,603 |

# 33 Amounts sold under repurchase agreements

## (a) Analysed by nature of counterparties

| | 2015 | 2014 |
|---|---|---|
| In Mainland | | |
| – Banks | 173,439 | 56,279 |
| – Other financial institutions | 9,060 | 5,426 |
| | 182,499 | 61,705 |
| Outside Mainland | | |
| – Banks | 3,153 | 5,283 |
| | 185,652 | 66,988 |

## (b) Analysed by assets type

| | 2015 | 2014 |
|---|---|---|
| Securities | | |
| – PRC government bonds | 12,833 | 13,328 |
| – Bonds issued by policy banks | 67,336 | 16,428 |
| – Bonds issued by commercial banks and other financial institutions | 1,994 | 3,823 |
| – Other debt securities | 1,159 | 1,588 |
| | 83,322 | 35,167 |
| Discounted bills | 102,330 | 30,908 |
| Loans and advances | – | 913 |
| | 185,652 | 66,988 |

# 34 Deposits from customers

| | 2015 | 2014 |
|---|---|---|
| Corporate customers | | |
| – Demand deposits | 1,167,467 | 973,646 |
| – Time deposits | 1,194,064 | 1,237,765 |
| | 2,361,531 | 2,211,411 |
| Retail customers | | |
| – Demand deposits | 835,062 | 644,836 |
| – Time deposits | 375,105 | 448,191 |
| | 1,210,167 | 1,093,027 |
| | 3,571,698 | 3,304,438 |

Customer deposits include marginal deposits for guarantees as follows:

| | 2015 | 2014 |
|---|---|---|
| Guarantee for acceptance bills | 191,988 | 167,437 |
| Guarantee for loans | 49,188 | 48,199 |
| Guarantee for issuing letters of credit | 56,499 | 54,705 |
| Deposit for letters of guarantee | 60,172 | 42,739 |
| Others | 57,867 | 51,006 |
| | 415,714 | 364,086 |

# 35 Interest payable

| | 2015 | 2014 |
|---|---|---|
| Issued debt securities | 1,398 | 1,352 |
| Customer deposit and others | 37,675 | 43,997 |
| | 39,073 | 45,349 |

# 36 Debt securities issued

| | Note | 2015 | 2014 |
|---|---|---|---|
| Subordinated notes issued | 36(a) | 32,519 | 32,396 |
| Long-term debt securities issued | 36(b) | 27,995 | 27,636 |
| Negotiable interbank certificates of deposit | | 176,245 | 24,832 |
| Certificates of deposit issued | | 14,748 | 21,291 |
| | | 251,507 | 106,155 |

# 36 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 in the year | Discount or premium amortisation | Repayment for the year | Ending balance (RMB in million) |
|---|---|---|---|---|---|---|---|---|---|
| Fixed rate bond (Notes (i)) | 180 months | Sep 4, 2008 | 5.90 (for the first ten years); 8.90 (from 11 year onwards, if the notes are not called by the Bank) | RMB7,000 | 6,994 | – | 1 | – | 6,995 |
| Fixed rate bond (Notes (ii)) | 180 months | Dec 28, 2012 | 5.20 | RMB11,700 | 11,686 | – | 2 | – | 11,688 |
| Fixed rate bond (Notes (iii)) | 120 months | Apr 18, 2014 | 6.40 | RMB11,300 | 11,286 | – | 1 | – | 11,287 |
| | | | | | 29,966 | – | 4 | – | 29,970 |

Notes:

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

The Bank exercised its redemption right on 4 September 2013 and redeemed a total of RMB23,000 million subordinated bonds, including two types of bonds valued at RMB19,000 million and RMB4,000 million respectively.

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

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

# 36 Debt securities issued *(continued)*

## (a) Subordinated notes issued *(continued)*

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

| Debt type | Term to maturity | Date of issuance | Annual interest rate (%) | Nominal value (in million) | Beginning balance (RMB in million) | Issue in the year | Discount or premium amortisation | Repayment for the year | Ending balance (RMB in million) |
|---|---|---|---|---|---|---|---|---|---|
| Fixed rate bond | 144 months | Dec 28, 2009 | 5.70 | HKD1,500 | 1,199 | – | 59 | – | 1,258 |
| Fixed to floating rate notes | 120 months | Nov 6, 2012 | 3.50 (for the first 5 years); T*+2.80 (from 6 year onwards, if the notes are not called by the Bank) | USD200 | 1,231 | – | 60 | – | 1,291 |
| | | | | | 2,430 | – | 119 | – | 2,549 |

* T represents the 5 years US Treasury rate.

## (b) Long-term debt securities

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

| Debt type | Term to maturity | Date of issuance | Annual interest rate (%) | Nominal value (in million) | Beginning balance (RMB in million) | Issue in the year | Discount or premium amortisation | Repayment for the year | Ending balance (RMB in million) |
|---|---|---|---|---|---|---|---|---|---|
| 12 CMB 01 (note (i)) | 60 months | Mar 14, 2012 | 4.15 | RMB6,500 | 6,495 | – | 2 | – | 6,497 |
| 12 CMB 02 (note (i)) | 60 months | Mar 14, 2012 | R*+0.95 | RMB13,500 | 13,491 | – | 4 | – | 13,495 |
| 14 CMB 03 (note (ii)) | 36 months | Apr 10, 2014 | 4.10 | RMB1,000 | 996 | – | 2 | – | 998 |
| | | | | | 20,982 | – | 8 | – | 20,990 |

* R represents the 1-year fixed deposit rate ("Rate") promulgated by the PBOC. The Rate on 14 March 2012 was 3.50%.

Notes:

(i) The CBRC and PBOC approved the Bank's issuance of RMB20,000 million long-term debt securities on 12 December 2011 (Yin Jian Fu [2011] No.557 entitled "The Approval of the issuance of long-term debt securities by China Merchants Bank") and on 16 January 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.2 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB6,500 million fixed rate debt and RMB13,500 million floating rate debt on 14 March 2012 on the Mainland China Interbank Bond Market.

(ii) The PBOC and National Development and Reform Commission approved the Bank's issuance of RMB1,000 million financial bonds on 13 February 2014 (Yin Han [2014] No.35 entitled "The Approval of the issuance of Renminbi debt securities in Hong Kong by China Merchants Bank") and on 11 March 2014 (Fa Gai Wai Zi [2014] No.412 entitled "The Approval of issuance of Renminbi debt securities in Hong Kong by China Merchants Bank"). The Bank issued RMB1,000 million financial bonds on 10 April 2014 in Hong Kong.

# 36 Debt securities issued *(continued)*

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

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

| Debt type | Term to maturity | Date of issuance | Annual interest rate (%) | Nominal value (in million) | Beginning balance (RMB in million) | Issue in the year | Discount or premium amortisation | Repayment for the year | Ending balance (RMB in million) |
|---|---|---|---|---|---|---|---|---|---|
| Fixed rate bond (note (iii)) | 36 months | Jun 26, 2013 | 4.99 | RMB1,000 | 1,000 | – | – | – | 1,000 |
| Fixed rate bond (note (iii)) | 60 months | Jun 26, 2013 | 5.08 | RMB1,000 | 1,000 | – | – | – | 1,000 |
| Fixed rate bond (note (iii)) | 36 months | Jul 24, 2013 | 4.87 | RMB1,000 | 1,000 | – | – | – | 1,000 |
| Fixed rate bond (note (iii)) | 60 months | Jul 24, 2013 | 4.98 | RMB1,000 | 1,000 | – | – | – | 1,000 |
| Fixed rate bond (note (iv)) | 36 months | Dec 7, 2015 | 3.75 | RMB200 | – | 200 | – | – | 200 |
| | | | | | 4,000 | 200 | – | – | 4,200 |

Notes:

(iii) As approved by CBRC under its Official Reply on the Issuance of Financial Bonds by CMBFLC under ref. Yin Jian Fu [2012] No.758 and PBOC under its Decision on the Grant of Administrative Permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2013] No.33, CMBFLC issued the first tranche of 2013 of RMB2,000 million financial bonds on 26 June 2013 and the second tranche of 2013 of RMB2,000 million financial bonds on 24 July 2013. As at 31 December 2015, the Bank held RMB440 million financial bonds issued by CMBFLC.

(iv) As approved by CBRC Shanghai office under its Reply on the Issuance of Financial Bonds by CMBFLC under ref. Hu Yin Jian Fu [2015] No.551 and PBOC under its Decision on the Grant of Administrative Permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2015] No.276, CMBFLC issued the first tranche of 2015 of RMB200 million financial bonds on 7 Dec 2015.

As at the end of the reporting period, long-term debt securities issued by CMB International Leasing Management Limited ("CMBIL"), CMBICHC's subsidiary, were as follows:

| Debt type | Term to maturity | Date of issuance | Annual interest rate (%) | Nominal value (in million) | Beginning balance (RMB in million) | Issue in the year | Discount or premium amortisation | Repayment for the year | Ending balance (RMB in million) |
|---|---|---|---|---|---|---|---|---|---|
| Fixed rate notes (Note (v)) | 60 months | Aug 11,2014 | 3.25 | USD500 | 3,094 | – | 151 | – | 3,245 |

Notes:

(v) On 11 Aug 2014, CMBIL issued USD 500 million with annual interest rate of 3.25% guaranteed notes due 2019 on the HKEx.

# 37 Staff welfare scheme

## (a) Salaries and welfare payable

| | 2015 | | | |
|---|---|---|---|---|
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Short-term employee benefits (i) | 5,865 | 24,004 | (23,615) | 6,254 |
| Post-employment benefits | | | | |
| – defined contribution plans (ii) | 175 | 3,080 | (3,023) | 232 |
| Other long-term employee benefits (iii) | 28 | 10 | – | 38 |
| | 6,068 | 27,094 | (26,638) | 6,524 |

| | 2014 | | | |
|---|---|---|---|---|
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Short-term employee benefits (i) | 5,057 | 19,093 | (18,285) | 5,865 |
| Post-employment benefits | | | | |
| – defined contribution plans (ii) | 49 | 2,889 | (2,763) | 175 |
| Other long-term employee benefits (iii) | 13 | 15 | – | 28 |
| | 5,119 | 21,997 | (21,048) | 6,068 |

# 37 Staff welfare scheme *(continued)*

## (a) Salaries and welfare payable *(continued)*

### (i) Short-term employee benefits

| | 2015 | | | |
|---|---|---|---|---|
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Salary and bonus | 4,215 | 17,248 | (16,887) | 4,576 |
| Welfare expense | 37 | 2,400 | (2,398) | 39 |
| Social insurance | | | | |
| – Medical insurance | 14 | 1,611 | (1,545) | 80 |
| – Injury insurance | 1 | 35 | (33) | 3 |
| – Maternity insurance | 3 | 53 | (52) | 4 |
| Housing reserve | 242 | 1,546 | (1,640) | 148 |
| Labour union and employee education expenses | 1,353 | 1,111 | (1,060) | 1,404 |
| | 5,865 | 24,004 | (23,615) | 6,254 |

| | 2014 | | | |
|---|---|---|---|---|
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Salary and bonus | 3,576 | 15,069 | (14,430) | 4,215 |
| Welfare expense | 36 | 82 | (81) | 37 |
| Social insurance | | | | |
| – Medical insurance | 169 | 1,464 | (1,619) | 14 |
| – Injury insurance | 1 | 29 | (29) | 1 |
| – Maternity insurance | 2 | 44 | (43) | 3 |
| Housing reserve | 108 | 1,548 | (1,414) | 242 |
| Labour union and employee education expenses | 1,165 | 857 | (669) | 1,353 |
| | 5,057 | 19,093 | (18,285) | 5,865 |

# 37 Staff welfare scheme *(continued)*

## (a) Salaries and welfare payable *(continued)*

### (ii) Post-employment benefits-defined contribution plan

| | 2015 | | | |
|---|---|---|---|---|
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Basic retirement security | 47 | 1,385 | (1,353) | 79 |
| Supplementary pension | 122 | 1,601 | (1,582) | 141 |
| Unemployment insurance | 6 | 94 | (88) | 12 |
| | 175 | 3,080 | (3,023) | 232 |

| | 2014 | | | |
|---|---|---|---|---|
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Basic retirement security | 32 | 1,218 | (1,203) | 47 |
| Supplementary pension | 13 | 1,580 | (1,471) | 122 |
| Unemployment insurance | 4 | 91 | (89) | 6 |
| | 49 | 2,889 | (2,763) | 175 |

*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 2015, the Group's contributions to the schemes are determined by local governments and vary at a range of 12% to 35% (2014: 10% to 35%) 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 2015, the Group's annual contributions to this plan are determined based on 8.33% of the staff salaries and bonuses (2014: 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.

# 37 Staff welfare scheme *(continued)*

## (a) Salaries and welfare payable *(continued)*

### (iii) Other long-term employee benefits

| | 2015 | | | |
|---|---|---|---|---|
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Cash settled share-based transactions | 28 | 10 | – | 38 |
| | 28 | 10 | – | 38 |

| | 2014 | | | |
|---|---|---|---|---|
| | Beginning balance | Change in the year | Payment/ transfers in the year | Ending balance |
| Cash settled share-based transactions | 13 | 15 | – | 28 |
| | 13 | 15 | – | 28 |

As at 31 December 2015, the Group has offered 7 phases of H share Appreciation Rights Scheme to its senior management ("the Scheme"). The options of the Scheme vest after 2 years or 3 years from the grant date and are then exercisable within a period of 8 years or 7 years. Each of the share appreciation right is lined to one H-share.

# 37 Staff welfare scheme *(continued)*

## (a) Salaries and welfare payable *(continued)*

### (iii) Other long-term employee benefits *(continued)*

(1) All share appreciation rights shall be settled in cash. The terms and conditions of the scheme are listed below:

| | Number of unexercised options at the end of 2015 (in millions) | Exercise conditions | Contract period of options |
|---|---|---|---|
| Options granted on 30 October 2007 | 0.922 | 2 years after the grant date | 10 years |
| Options granted on 7 November 2008 | 0.954 | 2 years after the grant date | 10 years |
| Options granted on 16 November 2009 | 1.110 | 2 years after the grant date | 10 years |
| Options granted on 18 February 2011 | 1.228 | 3 years after the grant date | 10 years |
| Options granted on 4 May 2012 | 1.259 | 3 years after the grant date | 10 years |
| Options granted on 22 May 2013 | 1.259 | 3 years after the grant date | 10 years |
| Options granted on 7 July 2014 | 2.070 | 3 years after the grant date | 10 years |

(2) The number and weighted average exercise prices of share options are as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Weighted average exercise price (HKD)** | **Number of options (in million)** | Weighted average exercise price (HKD) | Number of options (in million) |
| Outstanding as at the beginning of the year | **15.43** | **9.70** | 16.40 | 9.11 |
| Granted during the year | **–** | **–** | 14.84 | 2.28 |
| Forfeited during the year | **14.61** | **(0.90)** | 15.64 | (1.69) |
| Outstanding at the end of the year | **14.58** | **8.80** | 15.43 | 9.70 |
| Exercisable at the end of the year | **15.23** | **3.91** | 16.29 | 3.49 |

The options outstanding at 31 December 2015 had an weighted average exercise price of HKD14.58 (2014: HKD15.43) and a weighted average remaining contractual life of 5.67 years (2014: 6.76 years).

Pursuant to the requirements set out in the Scheme, if any dividends were distributed, capital reserve was converted into shares, share split or dilution, an adjustment to the exercise price is applied.

# 37 Staff welfare scheme *(continued)*

## (a) Salaries and welfare payable *(continued)*

### (iii) Other long-term employee benefits *(continued)*

(3) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Phase I** | **Phase II** | **Phase III** | **Phase IV** | **Phase V** | **Phase VI** | **Phase VII** |
| Fair value at measurement date (in RMB) | **1.82** | **10.26** | **4.25** | **4.61** | **5.09** | **4.81** | **4.63** |
| Share price (in HKD) | **18.30** | **18.30** | **18.30** | **18.30** | **18.30** | **18.30** | **18.30** |
| Exercise price (in HKD) | **24.00** | **5.46** | **16.69** | **15.56** | **13.36** | **13.93** | **13.99** |
| Expected volatility | **43%** | **43%** | **43%** | **43%** | **43%** | **43%** | **43%** |
| Option life (year) | **1.83** | **2.85** | **3.85** | **5.14** | **6.35** | **7.39** | **8.52** |
| Expected dividends rate | **6.25%** | **6.25%** | **6.25%** | **6.25%** | **6.25%** | **6.25%** | **6.25%** |
| Risk-free interest rate | **1.41%** | **1.41%** | **1.41%** | **1.41%** | **1.41%** | **1.41%** | **1.41%** |

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Phase I | Phase II | Phase III | Phase IV | Phase V | Phase VI | Phase VII |
| Fair value at measurement date (in RMB) | 1.16 | 10.22 | 3.25 | 3.60 | 4.22 | 3.90 | 3.74 |
| Share price (in HKD) | 19.46 | 19.46 | 19.46 | 19.46 | 19.46 | 19.46 | 19.46 |
| Exercise price (in HKD) | 24.85 | 6.31 | 17.54 | 16.40 | 14.21 | 14.78 | 14.84 |
| Expected volatility | 26% | 26% | 26% | 26% | 26% | 26% | 26% |
| Option life (year) | 2.83 | 3.83 | 4.83 | 6.17 | 7.33 | 8.42 | 9.58 |
| Expected dividends rate | 5.27% | 5.27% | 5.27% | 5.27% | 5.27% | 5.27% | 5.27% |
| Risk-free interest rate | 2.58% | 2.58% | 2.58% | 2.58% | 2.58% | 2.58% | 2.58% |

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has 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 option grants.

# 37 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:

| | 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Phase I No. of shares granted (in thousand) | Phase II No. of shares granted (in thousand) | Phase III No. of shares granted (in thousand) | Phase IV No. of shares granted (in thousand) | Phase V No. of shares granted (in thousand) | Phase VI No. of shares granted (in thousand) | Phase VII No. of shares granted (in thousand) | No. of shares exercised (in thousand) | Total no. of shares (in thousand) |
| Ma Wei Hua | 318 | 318 | 326 | 307 | 307 | 307 | – | – | 1,883 |
| Zhang Guang Hua | 159 | 159 | 163 | 200 | 200 | 200 | 240 | – | 1,321 |
| Li Hao | 159 | 159 | 163 | 200 | 200 | 200 | 240 | – | 1,321 |
| Tang Zhi Hong | 159 | 159 | 163 | 184 | 184 | 184 | 210 | – | 1,243 |
| Ding Wei | 127 | 159 | 163 | 184 | 184 | 184 | 210 | – | 1,211 |
| Wang Qing Bin | – | – | 131 | 153 | 184 | 184 | 210 | – | 862 |
| Tian Hui Yu | – | – | – | – | – | – | 300 | – | 300 |
| Liu Jian Jun | – | – | – | – | – | – | 210 | – | 210 |
| Wang Liang | – | – | – | – | – | – | 150 | – | 150 |
| Lian Bo Lin | – | – | – | – | – | – | 150 | – | 150 |
| Xu Shi Qing | – | – | – | – | – | – | 150 | – | 150 |
| Total | 922 | 954 | 1,109 | 1,228 | 1,259 | 1,259 | 2,070 | – | 8,801 |

| | 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Phase I No. of shares granted (in thousand) | Phase II No. of shares granted (in thousand) | Phase III No. of shares granted (in thousand) | Phase IV No. of shares granted (in thousand) | Phase V No. of shares granted (in thousand) | Phase VI No. of shares granted (in thousand) | Phase VII No. of shares granted (in thousand) | No. of shares exercised (in thousand) | Total no. of shares (in thousand) |
| Ma Wei Hua | 318 | 318 | 326 | 307 | 307 | 307 | – | – | 1,883 |
| Zhang Guang Hua | 159 | 159 | 163 | 200 | 200 | 200 | 240 | – | 1,321 |
| Li Hao | 159 | 159 | 163 | 200 | 200 | 200 | 240 | – | 1,321 |
| Tang Zhi Hong | 159 | 159 | 163 | 184 | 184 | 184 | 210 | – | 1,243 |
| Ding Wei | 127 | 159 | 163 | 184 | 184 | 184 | 210 | – | 1,211 |
| Tang Xiao Qing | – | – | 163 | 153 | 184 | 184 | 210 | – | 894 |
| Wang Qing Bin | – | – | 131 | 153 | 184 | 184 | 210 | – | 862 |
| Tian Hui Yu | – | – | – | – | – | – | 300 | – | 300 |
| Liu Jian Jun | – | – | – | – | – | – | 210 | – | 210 |
| Wang Liang | – | – | – | – | – | – | 150 | – | 150 |
| Lian Bo Lin | – | – | – | – | – | – | 150 | – | 150 |
| Xu Shi Qing | – | – | – | – | – | – | 150 | – | 150 |
| Total | 922 | 954 | 1,272 | 1,381 | 1,443 | 1,443 | 2,280 | – | 9,695 |

Note: In 2015, no member of senior management had exercised any share appreciation rights (2014: Nil).

# 37 Staff welfare scheme *(continued)*

## (b) Post-employment benefits – defined benefit plan

The Group's subsidiary 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 WLB.

The latest actuarial valuation of the Plan was performed in accordance with IAS 19 issued by the IASB as at 31 December 2015 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 108% (2014: 122%).

The amounts recognised in the statement of financial position as at 31 December 2015 are analysed as follows:

| | 2015 | 2014 |
|---|---|---|
| Fair value of the Plan assets | 367 | 386 |
| Present value of the funded defined benefit obligation | (340) | (316) |
| Net asset recognised in the statement of financial position | 27 | 70 |

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 2016.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2015 and 2014.

The amounts recognised in the consolidated statement of profit or loss are as follows:

| | 2015 | 2014 |
|---|---|---|
| Current service cost | (12) | (11) |
| Net interest income | 1 | 2 |
| Net expense for the year included in retirement benefit costs | (11) | (9) |

The actual losses on the Plan assets for the year ended 31 December 2015 was RMB4 million (2014: actual losses was RMB1 million).

The movements in the defined benefit obligation during the year are as follows:

| | 2015 | 2014 |
|---|---|---|
| Present value of obligation at 1 January | 316 | 294 |
| Current service cost | 12 | 11 |
| Interest cost | 5 | 6 |
| Actual benefits paid | (29) | (22) |
| Actuarial losses due to liability experience | 29 | 18 |
| Actuarial losses due to financial assumption changes | 7 | 9 |
| Actuarial gain due to demographic assumption changes | – | – |
| Actual obligation at 31 December | 340 | 316 |

# 37 Staff welfare scheme *(continued)*

## (b) Post-employment benefits – defined benefit plan *(continued)*

The movements in the fair value of the Plan assets during the year are as follows:

| | 2015 | 2014 |
|---|---|---|
| Fair value of the Plan assets at 1 January | 386 | 400 |
| Interest income | 6 | 8 |
| Expected return on the Plan assets other than interest losses | (9) | (10) |
| Actual benefits paid | (29) | (22) |
| Exchange difference | 13 | 10 |
| Fair value of the Plan assets at 31 December | 367 | 386 |

The major categories of the the Plan assets are as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Equities | 236 | 64.3 | 249 | 64.5 |
| Bonds | 63 | 17.2 | 63 | 16.3 |
| Cash | 68 | 18.5 | 74 | 19.2 |
| Total | 367 | 100 | 386 | 100 |

No deposit with the Bank was included in the amount of the Plan assets (2014: Nil).

The principal actuarial assumptions adopted in the valuation are as follows:

| | 2015 | 2014 |
|---|---|---|
| | % | % |
| Discount rate | | |
| – Defined benefit scheme | 1.4 | 1.7 |
| – Defined benefit pension scheme | 0.6 | 0.9 |
| Long-term average rate of salary increase for the Plan | 5.0 | 5.0 |
| Pension increase rate for the defined benefit pension plan | 3.0 | 3.0 |

## (c) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the net profit for the year as approved by the Board of Directors and accounted as operating expenses.

# 38 Tax payable

| | 2015 | 2014 |
|---|---|---|
| Corporate income tax | 9,840 | 8,383 |
| Business tax and surcharges payable | 2,633 | 2,745 |
| Others | 347 | 528 |
| | 12,820 | 11,656 |

# 39 Other liabilities

| | 2015 | 2014 |
|---|---|---|
| Clearing and settlement accounts | 12,294 | 7,001 |
| Salary risk allowances (note) | 8,000 | 3,700 |
| Insurance liabilities | 1,866 | 1,709 |
| Payment and collection account | 1,295 | 1,369 |
| Cheques and remittances returned | 15 | 116 |
| Others | 40,875 | 25,783 |
| | 64,345 | 39,678 |

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.

# 40 Share capital

By type of share:

| | Registered capital | |
|---|---|---|
| | 2015 | 2014 |
| Listed shares | | |
| – A-Shares | 20,629 | 20,629 |
| – H-Shares | 4,591 | 4,591 |
| | 25,220 | 25,220 |

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

| | Capital | |
|---|---|---|
| | No. of shares (in million) | Amount |
| At 1 January 2015 and at 31 December 2015 | 25,220 | 25,220 |

# 41 Capital reserve

The capital reserve primarily represents share premium by the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

| | 2015 | 2014 |
|---|---|---|
| At 1 January 2015 and 31 December 2015 | 67,523 | 67,523 |

# 42 Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

The movements of investment revaluation reserve:

| | 2015 | 2014 |
|---|---|---|
| Beginning Balance | 1,902 | (5,547) |
| Share of investment revaluation reserve of joint ventures | 64 | 35 |
| Realised (gain)/loss on disposal of available-for-sale financial assets, net of deferred tax | (421) | 145 |
| Changes in fair value of available-for-sale financial assets, net of deferred tax | 4,643 | 7,269 |
| Ending Balance | 6,188 | 1,902 |

# 43 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 2(i)(iii).

# 44 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.

| | 2015 | 2014 |
|---|---|---|
| At 1 January | 28,690 | 23,502 |
| Statutory surplus reserve | 5,319 | 5,188 |
| At 31 December | 34,009 | 28,690 |

# 45 Regulatory general reserve

Pursuant to relevant MOF notices, the Bank and the Group's financial services subsidiaries in Mainland China are required to set aside a general reserve according to a certain percentage of the ending balance of gross risk-bearing assets through profit after tax to cover potential losses against their assets. Effective from 1 July 2012, the minimum general reserve balance should increase to 1.5% of the ending balance of gross risk-bearing assets with a transition period of five years. The Bank and the Group's financial services subsidiaries in Mainland China have complied with the above requirements as of 31 December 2015.

| | 2015 | 2014 |
|---|---|---|
| At 1 January | 53,979 | 46,347 |
| Statutory general reserve | 10,700 | 7,632 |
| At 31 December | 64,679 | 53,979 |

# 46 Profit appropriations

## (a) Dividends approved/declared by shareholders

| | 2015 | 2014 |
|---|---|---|
| Dividends in 2014, approved and to be declared RMB6.70 per every 10 shares | 16,897 | – |
| Dividends in 2013, approved and to be declared RMB6.20 per every 10 shares | – | 15,636 |

## (b) Proposed profit appropriations

| | 2015 | 2014 |
|---|---|---|
| Statutory surplus reserve | 5,319 | 5,188 |
| Regulatory general reserve | 10,700 | 7,446 |
| Dividends | | |
| – cash dividend: RMB6.90 per every 10 shares (2014: RMB6.70 per every 10 shares) | 17,402 | 16,897 |
| Total | 33,421 | 29,531 |

2015 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 30 March 2016 and will be submitted to the 2015 annual general meeting for approval.

# 47 Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

# 48 Capital, reserves and dividends

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 individual components are as belows (note: the Statement of Changes in Equity for the year ended 31 Dec. 2014 and the balance of equity as at 1 Jan. 2015 are restated since the bank has adopted "IAS No.27 – Equity Method in Separate Financial Statement" in advance.):

| | Note | Share capital | Capital reserve | Investment revaluation reserve | Hedging reserve | Surplus reserve | Regulatory general reserve | Retained profits | Proposed profit appropriations | Exchange reserve | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 (restated) | 60 | 25,220 | 76,681 | 1,673 | (163) | 28,690 | 53,208 | 109,043 | 16,897 | 2 | 311,251 |
| Changes in equity for 2015: | | – | – | 4,096 | 404 | 5,319 | 10,720 | 19,748 | 505 | (2) | 40,790 |
| Net profit for the year | | – | – | – | – | – | – | 53,189 | – | – | 53,189 |
| Other comprehensive income for the year | | – | – | 4,096 | 404 | – | – | – | – | (2) | 4,498 |
| Total comprehensive income for the year | | – | – | 4,096 | 404 | – | – | 53,189 | – | (2) | 57,687 |
| Profit appropriations | | | | | | | | | | | |
| Appropriations to statutory surplus reserve | | – | – | – | – | 5,319 | – | (5,319) | – | – | – |
| Appropriations to regulatory general reserve | | – | – | – | – | – | 10,720 | (10,720) | – | – | – |
| Dividends paid for the year 2014 | | – | – | – | – | – | – | – | (16,897) | – | (16,897) |
| Proposed dividends for the year 2015 | | – | – | – | – | – | – | (17,402) | 17,402 | – | – |
| Balance at 31 December 2015 | 60 | 25,220 | 76,681 | 5,769 | 241 | 34,009 | 63,928 | 128,791 | 17,402 | – | 352,041 |

| | Note | Share capital | Capital reserve | Investment revaluation reserve | Hedging reserve | Surplus reserve | Regulatory general reserve | Retained profits | Proposed profit appropriations | Exchange reserve | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2014 (restated) | | 25,220 | 76,681 | (5,649) | (951) | 23,502 | 45,762 | 86,697 | 15,636 | (4) | 266,894 |
| Changes in equity for 2014: | | – | – | 7,322 | 788 | 5,188 | 7,446 | 22,346 | 1,261 | 6 | 44,357 |
| Net profit for the year | | – | – | – | – | – | – | 51,877 | – | – | 51,877 |
| Other comprehensive income for the year | | – | – | 7,322 | 788 | – | – | – | – | 6 | 8,116 |
| Total comprehensive income for the year | | – | – | 7,322 | 788 | – | – | 51,877 | – | 6 | 59,993 |
| Profit appropriations | | | | | | | | | | | |
| Appropriations to statutory surplus reserve | | – | – | – | – | 5,188 | – | (5,188) | – | – | – |
| Appropriations to regulatory general reserve | | – | – | – | – | – | 7,446 | (7,446) | – | – | – |
| Dividends paid for the year 2013 | | – | – | – | – | – | – | – | (15,636) | – | (15,636) |
| Proposed dividends for the year 2014 | | – | – | – | – | – | – | (16,897) | 16,897 | – | – |
| Balance at 31 December 2014 (restated) | 60 | 25,220 | 76,681 | 1,673 | (163) | 28,690 | 53,208 | 109,043 | 16,897 | 2 | 311,251 |

# 49 Notes to consolidated cash flow statements

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

| | 2015 | 2014 |
|---|---|---|
| Cash and balances with central bank | **118,184** | 149,938 |
| Balance with banks and other financial institutions | **56,014** | 47,336 |
| Placements with banks and other financial institutions | **147,714** | 68,983 |
| Amounts held under resale agreements | **296,458** | 190,039 |
| Debt securities investments | **17,473** | 15,175 |
| | **635,843** | 471,471 |

## (b) Significant non-cash transactions

There are no other significant non-cash transactions during the year.

# 50 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.

The Group makes business decisions, reporting and performance assessment by segment: corporate finance, retail finance, interbank finance and other business. In 2015, the profits and/or losses from treasury functions were proportionally allocated to corporate finance, retail finance and interbank finance segments from other business. The Group's business reporting segments are as follows:

### – Corporate finance business

The provision of financial services to corporations and governmental institutions includes lending and deposit taking activities, clearing and cash management services, trade finance and offshore businesses, investment banking and other services.

### – Retail finance business

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

### – Interbank finance business

This segment covers interbank transactions such as interbank lending and repurchasing activities, asset custody activities and financial market businesses.

# 50 Operating segments *(continued)*

## – Other Business

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

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

## (a) Segment results, assets and liabilities

| | Corporate financial business | | Retail financial business | | Interbank financial business | | Other business | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 (Restated) | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 (Restated) |
| External net interest income | **41,675** | 42,793 | **67,527** | 51,279 | **8,513** | 7,144 | **19,014** | 15,986 | **136,729** | 117,202 |
| Internal net interest income/(expense) | **16,581** | 18,063 | **(5,121)** | (453) | **2,953** | 2,084 | **(14,413)** | (19,694) | **–** | – |
| Net interest income/(expense) | **58,256** | 60,856 | **62,406** | 50,826 | **11,466** | 9,228 | **4,601** | (3,708) | **136,729** | 117,202 |
| Net fee and commission income | **13,613** | 12,942 | **25,860** | 16,765 | **8,972** | 5,672 | **4,974** | 4,115 | **53,419** | 39,494 |
| Other net income | **2,622** | 3,623 | **920** | 993 | **6,010** | 3,953 | **2,466** | 1,102 | **12,018** | 9,671 |
| Operating income | **74,491** | 77,421 | **89,186** | 68,584 | **26,448** | 18,853 | **12,041** | 1,509 | **202,166** | 166,367 |
| Operating expenses | | | | | | | | | | |
| – Depreciation | **(1,222)** | (1,265) | **(2,104)** | (1,719) | **(182)** | (142) | **(578)** | (409) | **(4,086)** | (3,535) |
| – Others | **(20,890)** | (22,192) | **(35,954)** | (30,149) | **(3,121)** | (2,487) | **(3,619)** | (2,718) | **(63,584)** | (57,546) |
| Charge for insurance claims | **–** | – | **–** | – | **–** | – | **(287)** | (332) | **(287)** | (332) |
| | **(22,112)** | (23,457) | **(38,058)** | (31,868) | **(3,303)** | (2,629) | **(4,484)** | (3,459) | **(67,957)** | (61,413) |
| Reportable segment profit/(loss) before impairment losses | **52,379** | 53,964 | **51,128** | 36,716 | **23,145** | 16,224 | **7,557** | (1,950) | **134,209** | 104,954 |
| Impairment losses | **(39,871)** | (23,166) | **(16,336)** | (7,611) | **(162)** | (25) | **(2,897)** | (879) | **(59,266)** | (31,681) |
| Share of profit of associates and joint ventures | **–** | – | **–** | – | **–** | – | **136** | 158 | **136** | 158 |
| Reportable segment profit/(loss) before tax | **12,508** | 30,798 | **34,792** | 29,105 | **22,983** | 16,199 | **4,796** | (2,671) | **75,079** | 73,431 |
| Capital expenditure (Note) | **1,691** | 2,908 | **2,911** | 3,951 | **252** | 326 | **4,230** | 940 | **9,084** | 8,125 |
| Reportable segment assets | **1,398,748** | 1,380,976 | **1,265,735** | 1,022,060 | **1,246,526** | 886,272 | **1,527,731** | 1,411,906 | **5,438,740** | 4,701,214 |
| Reportable segment liabilities | **2,244,895** | 2,169,013 | **1,147,024** | 1,028,265 | **989,926** | 702,617 | **678,269** | 483,362 | **5,060,114** | 4,383,257 |
| Interest in associates and joint ventures | **–** | – | **–** | – | **–** | – | **2,786** | 1,484 | **2,786** | 1,484 |

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

# 50 Operating segments *(continued)*

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

| | 2015 | 2014 |
|---|---|---|
| **Revenue** | | |
| Total revenue for reportable segments | 202,166 | 166,367 |
| Other revenue | – | – |
| Consolidated revenue | 202,166 | 166,367 |
| **Profit** | | |
| Total profit or loss for reportable segments | 75,079 | 73,431 |
| Other profit | – | – |
| Consolidated profit before income tax | 75,079 | 73,431 |

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Total assets for reportable segments | 5,438,740 | 4,701,214 |
| Goodwill | 9,954 | 9,953 |
| Intangible assets | 819 | 1,059 |
| Deferred tax assets | 15,538 | 9,880 |
| Other unallocated assets | 9,927 | 9,723 |
| Consolidated total assets | 5,474,978 | 4,731,829 |
| **Liabilities** | | |
| Total liabilities for reportable segments | 5,060,114 | 4,383,257 |
| Tax payable | 11,874 | 10,854 |
| Other unallocated liabilities | 41,232 | 22,658 |
| Consolidated total liabilities | 5,113,220 | 4,416,769 |

# 50 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 and Luxembourg, subsidiaries operating in Hong Kong and Shanghai and representative offices in London, New York and Taipei.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches 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 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 and representative offices in London, New York and Taipei; and

– "Subsidiaries" refers to subsidiaries wholly owned or controlled by the Group, including WLB, CMBICHC, CMBFLC and CMFM.

# 50 Operating segments *(continued)*

## (c) Geographical segments *(continued)*

| | Total assets | | Total liabilities | | Non-current assets | | Profit before tax | | Revenue | |
|---|---|---|---|---|---|---|---|---|---|---|
| Geographical information | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Headquarter | **2,105,486** | 1,863,145 | **1,808,257** | 1,629,954 | **24,225** | 23,340 | **31,968** | 1,998 | **58,343** | 25,146 |
| Yangtze River Delta region | **762,902** | 590,741 | **761,795** | 586,447 | **2,914** | 2,657 | **3,572** | 10,514 | **31,057** | 30,436 |
| Bohai Rim region | **511,402** | 425,612 | **503,469** | 414,438 | **2,529** | 2,522 | **11,163** | 14,922 | **25,823** | 25,521 |
| Pearl River Delta and West Coast region | **607,634** | 527,907 | **597,665** | 515,926 | **1,819** | 1,862 | **13,218** | 15,988 | **30,122** | 28,664 |
| Northeast region | **201,537** | 173,827 | **199,294** | 170,945 | **1,420** | 1,473 | **2,990** | 3,865 | **7,910** | 8,078 |
| Central region | **385,401** | 333,656 | **382,889** | 328,146 | **2,736** | 2,798 | **3,683** | 7,510 | **16,788** | 16,917 |
| Western region | **421,469** | 378,606 | **422,455** | 370,196 | **2,832** | 2,827 | **431** | 11,212 | **19,487** | 20,205 |
| Overseas | **142,219** | 126,892 | **140,900** | 121,176 | **91** | 68 | **1,791** | 2,077 | **2,230** | 2,517 |
| Subsidiaries | **336,928** | 311,443 | **296,496** | 279,541 | **11,312** | 6,311 | **6,263** | 5,345 | **10,406** | 8,883 |
| Total | **5,474,978** | 4,731,829 | **5,113,220** | 4,416,769 | **49,878** | 43,858 | **75,079** | 73,431 | **202,166** | 166,367 |

# 51 Assets pledged as security

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

| | **2015** | 2014 |
|---|---|---|
| Amounts sold under repurchase agreements | **185,652** | 66,988 |
| Assets pledged | | |
| – Available-for-sale financial assets | **13,367** | 3,022 |
| – Held-to-maturity investments | **67,980** | 29,050 |
| – Trading assets | **2,752** | 3,853 |
| – Other assets | **102,330** | 31,821 |
| | **186,429** | 67,746 |

The transactions under repurchase agreements are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

# 52 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 failed completely to perform as contracted.

| | **2015** | 2014 |
|---|---|---|
| Contractual amount | | |
| Irrevocable guarantees | **235,692** | 249,322 |
| Irrevocable letters of credit | **188,469** | 279,857 |
| Bills of acceptances | **363,035** | 399,489 |
| Irrevocable loan commitments | | |
| – with an original maturity within 1 year (inclusive) | **5,979** | 4,062 |
| – with an original maturity over 1 year | **33,029** | 23,694 |
| Credit card commitments | **338,012** | 266,094 |
| Others | **5,884** | 2,610 |
| | **1,170,100** | 1,225,128 |

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,496,021 million at 31 December 2015 (2014: RMB1,725,348 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.

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

| | **2015** | 2014 |
|---|---|---|
| Credit risk weighted amounts of contingent liabilities and commitments | **349,816** | 398,937 |

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

# 52 Contingent liabilities and commitments *(continued)*

## (b) Capital commitments

Authorised capital commitments were as follows:

| | 2015 | 2014 |
|---|---|---|
| For purchase of property and equipment: | | |
| – Contracted for | 4,380 | 1,965 |
| – Authorised but not contracted for | 251 | 572 |
| | 4,631 | 2,537 |

## (c) Operating lease commitments

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

| | 2015 | 2014 |
|---|---|---|
| Within 1 year (inclusive) | 2,613 | 2,293 |
| 1 year to 5 years (inclusive) | 8,117 | 7,991 |
| Over 5 years | 2,293 | 2,674 |
| | 13,023 | 12,958 |

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

## (d) Outstanding litigations

At 31 December 2015, the Group was a defendant in certain outstanding litigations with gross claims of RMB1,100 million (2014: RMB595 million) arising from its banking activities. The Board of Directors consider 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 financial statements.

## (e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the Minister of Finance 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:

| | 2015 | 2014 |
|---|---|---|
| Redemption obligations | 26,729 | 23,497 |

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

# 53 Transactions on behalf of customers

## (a) Entrusted lending business

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

Entrusted lending are not assets of the Group and are not recognised in the statement of financial position. Income received and receivable for providing these services are recognised in the 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:

| | 2015 | 2014 |
|---|---|---|
| Entrusted loans | 320,110 | 243,797 |
| Entrusted funds | (320,110) | (243,797) |

## (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 government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes 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 statement of financial position. The funds obtained from wealth management services that have not yet been invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under wealth management services were as follows:

| | 2015 | 2014 |
|---|---|---|
| Funds received from customers under wealth management services | 1,820,694 | 831,473 |

# 54 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 formulated credit policy guideline, and enhanced 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 loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

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.

Analyses of loans and advances by industry and loan portfolio are stated in Note 19.

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

# 54 Risk management *(continued)*

## (a) Credit risk *(continued)*

### (i) Maximum exposure

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is the total amount of the carrying amount of the relevant financial assets (including derivatives) as disclosed on the balance sheet and the carrying amount of the off balance sheet items disclosed in Note 52(a). At 31 December 2015, the maximum exposure to credit risk of the Group's relevant on balance sheet items and off balance sheet items is RMB8,043,986 million (2014: RMB7,597,633 million).

### (ii) The credit quality of loans and advances to customers can be analysed as follows:

| | 2015 | 2014 |
|---|---|---|
| **Impaired loans and advances to customers** | | |
| For which impairment allowances are individually assessed | | |
| Gross amount | 34,326 | 20,484 |
| Less: Impairment allowances | (14,624) | (9,577) |
| Carrying amount | 19,702 | 10,907 |
| For which impairment allowances are collectively assessed | | |
| Gross amount | 13,070 | 7,408 |
| Less: Impairment allowances | (7,806) | (4,733) |
| Carrying amount | 5,264 | 2,675 |
| **Overdue but not impaired** | | |
| – within 3 months (inclusive) | 31,689 | 25,105 |
| – 3 months to 6 months (inclusive) | 2,217 | 752 |
| – 6 months to 1 year (inclusive) | 254 | – |
| – Over 1 year | 282 | 6 |
| Gross amount | 34,442 | 25,863 |
| Less: Impairment allowances | | |
| – collectively assessed | (3,600) | (2,640) |
| Carrying amount | 30,842 | 23,223 |
| **Neither overdue nor impaired** | | |
| Gross amount | 2,742,448 | 2,460,164 |
| Less: Impairment allowances | | |
| – collectively assessed | (58,812) | (48,215) |
| Carrying amount | 2,683,636 | 2,411,949 |
| Total carrying amount | 2,739,444 | 2,448,754 |

Loans and advances that were overdue or impaired had the terms been renegotiated amounted to RMB4,531 million as at 31 December 2015 (2014: RMB996 million).

# 54 Risk management *(continued)*

## (a) Credit risk *(continued)*

### (iii) 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 & Poors, is as follows:

| | 2015 | 2014 |
|---|---|---|
| Individually assessed and impaired gross amount of debt investments | 668 | 662 |
| Impairment allowances | (601) | (619) |
| Subtotal | 67 | 43 |
| Neither overdue nor impaired | | |
| AAA | 7,095 | 8,667 |
| AA– to AA+ (Note) | 540,986 | 441,823 |
| A– to A+ | 14,671 | 5,543 |
| Lower than A- | 15,763 | 7,574 |
| | 578,515 | 463,607 |
| Unrated | 159,815 | 154,334 |
| Total | 738,397 | 617,984 |

Note: Bonds issued by the PRC Government, PBOC and PRC Policy Banks held by the Group amounted to RMB532,353 million (2014: RMB428,082 million (credit quality: AA-)) are included.

### (iv) Collateral and other credit enhancements

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:

| | 2015 | 2014 |
|---|---|---|
| Estimate of the fair value of collateral and other credit enhancements held against | | |
| – Loans and advances to customers | 115,400 | 88,929 |

# 54 Risk management *(continued)*

## (b) Market risk

Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate and which may result in loss to the Group, because of changes in foreign exchange rate, interest rate, commodity price, stock price and other observable market factors. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Group. The Group is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments under the trading book are held for trading purposes or for the purposes of hedging the risks arsing 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 functional currency of the Group is RMB. 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, 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.

The IMF announced RMB join the SDR in December 2015, followed by the PBOC's announcement of RMB exchange rate index, which will accelerate the process of RMB exchange rate unpeg to USD, and gradually reference to a basket of currencies, the RMB exchange rate formation mechanism will be more transparent, and will be more conducive in enhancing the liquidity and stability of RMB in the future. Along with the Fed rate hike and difference in Sino US economic development trend, USD increased significantly at the end of the fourth quarter, capital outflow boosted the appreciation of USD against RMB. Under the current easing of conditions, without PBOC's intervention, the exchange rate of RMB against USD, HKD, JPY and other currencies may continue to remain low.

#### *(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 purpose, the Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, including interest rate, foreign exchange rate, 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.

Since 11 August 2015, with accelerating devaluation and increasing volatility of RMB, the Group reduced its foreign exchange exposure and risk limit threshold, strengthened its tracking of the movements in the currency market, improved risk monitoring level, so as to effectively control the Group's foreign exchange risk exposure in the trading book. Due to the prudent trading strategies and strict risk management methods, trading book of foreign exchange businesses maintained stable, the risk indicators performed well.

# 54 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 treasurer is responsible to manage the foreign exchange risk under the banking book using a prudent approach and compliant with the regulatory requirements, and managing the foreign exchange risk through management of limits, controlled adjustments and budget.

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

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, adjusts the foreign exchange exposures based on the trend of foreign exchange rate movements to mitigate the banking book foreign exchange risk.

In the first half of 2015, the Group has further optimized the foreign exchange risk measuring method of the banking book, which offers a logical reference for the management decision making. The Group has continuously strengthened its foreign exchange risk monitoring in the banking book and authorization limits management, to ensure the risk exposure is in a reasonable range.

# 54 Risk management *(continued)*

## (b) Market risk *(continued)*

### (i) Foreign exchange risk *(continued)*

Assets and liabilities by original currency are shown as follows:

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equivalent in RMB million | | | | | Original currency in million | |
| | RMB | USD | HKD | Others | Total | USD | HKD |
| **Assets** | | | | | | | |
| Cash and balances with central bank | 509,747 | 44,537 | 28,345 | 1,713 | 584,342 | 6,852 | 33,796 |
| Amounts due from banks and other financial institutions | 465,757 | 109,509 | 7,011 | 11,119 | 593,396 | 16,848 | 8,359 |
| Loans and advances to customers | 2,473,949 | 158,776 | 87,923 | 18,796 | 2,739,444 | 24,428 | 104,832 |
| Investments (including derivatives) | 1,582,388 | (135,718) | 5,666 | (11,533) | 1,440,803 | (20,880) | 6,756 |
| Other assets | 102,365 | 7,728 | 6,446 | 454 | 116,993 | 1,189 | 7,686 |
| | 5,134,206 | 184,832 | 135,391 | 20,549 | 5,474,978 | 28,437 | 161,429 |
| **Liabilities** | | | | | | | |
| Amounts due to banks and other financial institutions | 1,051,084 | 78,385 | 4,640 | 4,475 | 1,138,584 | 12,060 | 5,532 |
| Deposits from customers | 3,135,623 | 254,346 | 114,031 | 67,698 | 3,571,698 | 39,131 | 135,962 |
| Financial liabilities at fair value through profit or loss (including derivatives) | 215,920 | (168,451) | (5,163) | (14,504) | 27,802 | (25,916) | (6,156) |
| Debt securities issued | 235,039 | 10,425 | 6,043 | – | 251,507 | 1,604 | 7,205 |
| Other liabilities | 119,943 | 864 | 3,131 | 421 | 123,459 | 133 | 3,733 |
| | 4,756,709 | 175,569 | 122,682 | 58,090 | 5,113,050 | 27,012 | 146,276 |
| Net on-balance sheet position | 377,497 | 9,263 | 12,709 | (3,541) | 361,928 | 1,425 | 15,153 |
| Net off-balance sheet position: | | | | | | | |
| Credit commitments (Note) | 725,713 | 76,905 | 24,916 | 24,088 | 851,622 | 11,832 | 29,708 |
| Derivatives: | | | | | | | |
| – forward purchased | 347,450 | 495,820 | 61,572 | 93,045 | 997,887 | 76,282 | 73,414 |
| – forward sold | (417,201) | (482,020) | (52,239) | (56,359) | (1,007,819) | (74,159) | (62,286) |
| – net currency option position | – | (15,074) | 8 | (194) | (15,260) | (2,319) | 10 |
| | (69,751) | (1,274) | 9,341 | 36,492 | (25,192) | (196) | 11,138 |

# 54 Risk management *(continued)*

## (b) Market risk *(continued)*

### (i) Foreign exchange risk *(continued)*

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equivalent in RMB million | | | | | Original currency in million | |
| | RMB | USD | HKD | Others | Total | USD | HKD |
| **Assets** | | | | | | | |
| Cash and balances with central bank | 621,938 | 18,874 | 13,327 | 646 | 654,785 | 3,044 | 16,669 |
| Amounts due from banks and other financial institutions | 458,014 | 52,091 | 4,886 | 10,060 | 525,051 | 8,402 | 6,111 |
| Loans and advances to customers | 2,139,783 | 214,718 | 77,640 | 16,613 | 2,448,754 | 34,632 | 97,111 |
| Investments (including derivatives) | 940,676 | 34,184 | 17,652 | 3,705 | 996,217 | 5,514 | 22,079 |
| Other assets | 95,413 | 3,487 | 7,538 | 572 | 107,010 | 562 | 9,428 |
| | 4,255,824 | 323,354 | 121,043 | 31,596 | 4,731,817 | 52,154 | 151,398 |
| **Liabilities** | | | | | | | |
| Amounts due to banks and other financial institutions | 799,722 | 74,400 | 3,064 | 1,853 | 879,039 | 12,000 | 3,832 |
| Deposits from customers | 2,892,528 | 210,658 | 174,441 | 26,811 | 3,304,438 | 33,977 | 218,188 |
| Financial liabilities at fair value through profit or loss (including derivatives) | 5,352 | 3,823 | 14,356 | 84 | 23,615 | 617 | 17,956 |
| Debt securities issued | 83,601 | 15,962 | 6,592 | – | 106,155 | 2,575 | 8,245 |
| Other liabilities | 94,687 | 3,892 | 4,532 | 411 | 103,522 | 628 | 5,669 |
| | 3,875,890 | 308,735 | 202,985 | 29,159 | 4,416,769 | 49,797 | 253,890 |
| Net on-balance sheet position | 379,934 | 14,619 | (81,942) | 2,437 | 315,048 | 2,357 | (102,492) |
| Net off-balance sheet position: | | | | | | | |
| Credit commitments (Note) | 829,782 | 110,738 | (39,226) | 7,947 | 909,241 | 17,861 | (49,063) |
| Derivatives : | | | | | | | |
| – forward purchased | 283,065 | 429,980 | 178,230 | 50,907 | 942,182 | 69,352 | 222,927 |
| – forward sold | (384,466) | (439,124) | (79,240) | (49,483) | (952,313) | (70,826) | (99,112) |
| – net currency option position | – | 151 | 7 | (674) | (516) | 24 | 9 |
| | (101,401) | (8,993) | 98,997 | 750 | (10,647) | (1,450) | 123,824 |

Note: Credit commitments generally expire before they are drawn, therefore the above net position (net of pledged deposits) does not represent the future cash out flows.

# 54 Risk management *(continued)*

## (b) Market risk *(continued)*

### (i) Foreign exchange risk *(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. The following table set forth the results of the Group's foreign exchange risk sensitivity analysis on the assets and liabilities as at 31 December 2015 and 31 December 2014.

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Change in foreign currency exchange rate (in basis points)** | | Change in foreign currency exchange rate (in basis points) | |
| | **(100)** | **100** | (100) | 100 |
| Increase/(decrease) in annualised net profit | **94** | **(94)** | 37 | (37) |

The above sensitivity analysis is based on a static foreign currency exposure profile of assets and liabilities. In view of the nature of the RMB exchange rate regime, the analysis is based on the following assumptions:

(i) the foreign exchange rate sensitivity is the foreign exchange gains and losses recognised as a result of a standard 100 basis point fluctuation in the foreign currency exchange against RMB;

(ii) the exchange rates against RMB for all foreign currencies is the change in the same direction simultaneously; and

(iii) the foreign exchange exposures calculated include spot foreign exchange exposures, forward foreign exchange exposures and options.

Based on the assumptions above, actual changes in the Group's net foreign exchange gains and losses resulting from increases or decreases in foreign exchange rates may be different from the results of this sensitivity analysis.

# 54 Risk management *(continued)*

## (b) Market risk *(continued)*

### (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*

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

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

In 2015, the Group continued to enhance the trading book market risk management framework based on existing practice. The Group has optimised the procedures, processes and tools for the measurement and monitoring of market risk, and enhanced application of management tools in management of market risk.

For management purpose, the Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, including interest rate, foreign exchange rate, 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. The VaR includes general market value at risk and pressures market value at risk which calculated by using historical simulation.

In 2015, the downward of market interest rate, and significantly decreased yield curve for all kinds of bonds resulting in the "bull market" in the RMB bonds market. The Group conducted comprehensive researches on and timely tracked the macro economy, monetary policy and market situation, and deployed trading strategies correspondingly. All risk indicators under the trading book performed well.

# 54 Risk management *(continued)*

## (b) Market risk *(continued)*

### (ii) Interest rate risk *(continued)*

#### *(2) Banking book*

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

The Group has primarily adopted scenario simulation analysis, re-pricing gap analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Through assets and liabilities analysis meetings and reporting framework, the Group analyses the route causes of interest rate risk under the banking book, proposes management advices and implements management measures.

In 2015, the Group paid close attention to changes in the external interest rate environment, predicted movements in interest rates in rolling basis; strengthened NII fluctuations monitoring analysis; deepened NII schedule and budget gap analysis. On the foundation of the macro prediction and refinement of internal management mentioned above, the Group took the initiative to put forward an prospective program of optimizing assets and liabilities; to ensure that the overall interest rate risk levels remained within management objectives, and to safeguard the stable operation of the NII.

In 2015, there were five interest rate cuts by the PBOC, one-year benchmark deposit rate was cut by 125 basis points in total; one-year benchmark lending rate was also cut by 125 basis points, at the same time the PBOC has fully liberalized the deposit interest rate ceiling. To mitigate the negative impact of the interest rate cuts and deposit interest rate celling, the Group adopted active countermeasures, including coordinating the interest rate risk management and FTP management, continue to adjust the duration of the loans; improving the deposit differential pricing mechanism, pricing sensitivity and pertinence, based on the interest rate sensitivity analysis and customer pricing behaviour analysis; reasonably control structured deposit and other related high cost deposits, maintaining a comparative advantage on the cost of liabilities. In future, the Group will continue to take on several measures to improve the fine management capacity of banking book interest rate risks, in systems, processes and evaluations aspects, to achieve steady growth in net interest income and economic value.

# 54 Risk management *(continued)*

## (b) Market risk *(continued)*

### (ii) Interest rate risk *(continued)*

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.

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Total | 3 months or less (include overdue) | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest bearing |
| **Assets** | | | | | | |
| Cash and balances with central bank | 584,342 | 544,820 | – | – | – | 39,522 |
| Amounts due from banks and other financial institutions | 593,396 | 535,143 | 45,374 | 10,168 | 702 | 2,009 |
| Loans and advances to customers (Note) | 2,739,444 | 1,647,629 | 905,992 | 176,721 | 9,102 | – |
| Investments (including derivatives) | 1,438,017 | 493,957 | 252,123 | 380,022 | 296,912 | 15,003 |
| Other assets | 119,779 | – | – | – | – | 119,779 |
| **Total assets** | 5,474,978 | 3,221,549 | 1,203,489 | 566,911 | 306,716 | 176,313 |
| **Liabilities** | | | | | | |
| Amounts due to banks and other financial institutions | 1,138,584 | 871,075 | 254,003 | 9,202 | – | 4,304 |
| Deposits from customers | 3,571,698 | 2,596,345 | 603,585 | 357,570 | 6,088 | 8,110 |
| Financial liabilities at fair value through profit or loss (including derivatives) | 27,802 | 6,620 | 6,228 | 6,551 | 388 | 8,015 |
| Debt securities issued | 251,507 | 97,439 | 108,411 | 21,425 | 24,232 | – |
| Other liabilities | 123,629 | 102 | 22 | 68 | 26 | 123,411 |
| **Total liabilities** | 5,113,220 | 3,571,581 | 972,249 | 394,816 | 30,734 | 143,840 |
| Asset-liability gap | 361,758 | (350,032) | 231,240 | 172,095 | 275,982 | 32,473 |

# 54 Risk management *(continued)*

## (b) Market risk *(continued)*

### (ii) Interest rate risk *(continued)*

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Total | 3 months or less (include overdue) | Over 3 months to 1 year | Over 1 year to 5 years | Over 5 years | Non-interest bearing |
| **Assets** | | | | | | |
| Cash and balances with central bank | 654,785 | 632,518 | – | – | – | 22,267 |
| Amounts due from banks and other financial institutions | 525,051 | 394,447 | 86,569 | 41,218 | – | 2,817 |
| Loans and advances to customers (Note) | 2,448,754 | 1,294,461 | 962,393 | 150,223 | 41,677 | – |
| Investments (including derivatives) | 996,217 | 147,862 | 244,913 | 378,652 | 212,029 | 12,761 |
| Other assets | 107,022 | – | – | – | – | 107,022 |
| **Total assets** | 4,731,829 | 2,469,288 | 1,293,875 | 570,093 | 253,706 | 144,867 |
| **Liabilities** | | | | | | |
| Amounts due to banks and other financial institutions | 879,039 | 663,147 | 193,298 | 20,526 | – | 2,068 |
| Deposits from customers | 3,304,438 | 2,278,910 | 681,858 | 335,500 | 1,444 | 6,726 |
| Financial liabilities at fair value through profit or loss (including derivatives) | 23,615 | 6,035 | 927 | 6,213 | 165 | 10,275 |
| Debt securities issued | 106,155 | 20,793 | 38,380 | 15,817 | 31,165 | – |
| Other liabilities | 103,522 | 23 | 61 | 917 | 94 | 102,427 |
| **Total liabilities** | 4,416,769 | 2,968,908 | 914,524 | 378,973 | 32,868 | 121,496 |
| Asset-liability gap | 315,060 | (499,620) | 379,351 | 191,120 | 220,838 | 23,371 |

Note: For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2015 and 31 December 2014, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interest was overdue.

# 54 Risk management *(continued)*

## (b) Market risk *(continued)*

### (ii) Interest rate risk *(continued)*

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth the results of the Group's interest rate sensitivity analysis on the assets and liabilities as at 31 December 2015 and 31 December 2014.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 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 | (1,042) | 1,042 | (995) | 995 |

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Group's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions:

(i) all assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods;

(ii) there is a parallel shift in the yield curve and in interest rates; and

(iii) there are no other changes to the portfolio.

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

# 54 Risk management *(continued)*

## (c) Liquidity risk

Liquidity risk arises when the Group fails to satisfy customers' demand for drawing down on maturing liabilities, new loans and reasonable finances, or when it fails to meet their needs at a normal cost.

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, Supervisors, senior management, designated committees and relevant departments to ensure the effectiveness of the 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 polices and systems meet regulatory requirements and its own management needs.

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

The Group measures, monitors and identifies liquidity risk by short-term reserves as well as duration structures and contingencies. It closely monitors various limit indicators at regular intervals, performs regular stress testing to judge whether it can address liquidity needs under extreme circumstances. In addition, the Group draws up liquidity contingency plans and conducts liquidity contingency drills to prepare for liquidity crises.

In the first half of 2015, the overall market liquidity was more relaxed, only appeared as periodic tightened phase due to seasonal factors during the Spring Festival. Despite foreign exchange exposure continued to decline, under the guidance of the PBOC cutting interest rates in a timely manner and reducing the open market reverse repurchase rate, the market outlook was expected by institutions to be stabilized on the funding side and the inter-bank funding maintained at relaxed level. The Group's liquidity risk remained in a medium-low level. During the second half year, the PBOC monetary policy continued to put in more weights, in the continuation of lowering interest rates and RMB deposit reserve ratio (RRR), the PBOC reformed the deposit reserve appraisal system, and established the interest rate corridor, lead down the market medium-term and long-term interest rate. The overall market liquidity remained neutral and relaxed. During the year end, affected by MLF maturity, deposit deviation assessment and seasonal factors influences, market liquidity slightly fluctuated, the Group made liquidity arrangements in advance to ensure a smooth overall operation of the Group.

The Group had adopted various measures to deal with the liquidity risk profile for this year, to ensure the smooth operation of the bank's liquidity: (1) utilized FTP regulating mechanism to guide branches to absorb the duration and total amount of liabilities, to balance the source of funding and usage of funding. (2) strengthened the asset and liability management of the bill business and other related business, improved the maturity mismatch situation. (3) carried out short-term and long-term initiative liabilities in a flexible manner, including the issuance of interbank deposits, certificates of deposit, as well as the use of central bank monetary policy tools for financing, coordination of liquidity and cost of liability, ensuring the Group's source of funding. (4) steadily progressed in assets backed securitization. The total amount of assets backed securities issued in 2015 was RMB23,020 million, including RMB7,200 million for mortgages and RMB15,820 million for credit card receivables for vehicle. (5) through proactive risk management, the Group deployed investment and financing strategy based on the fundamental of dynamic forecasting of future cash flows, to reduce cost and increase revenue.

# 54 Risk management *(continued)*

## (c) Liquidity risk *(continued)*

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

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | Total |
| Cash and balances with central bank (Note (i)) | 118,184 | – | – | – | – | – | 466,158 | 584,342 |
| Amounts due from banks and other financial institutions | 12,173 | 463,243 | 61,785 | 45,004 | 10,480 | – | 711 | 593,396 |
| Loans and advances to customers (Note (ii)) | 19,954 | 124,077 | 421,499 | 972,196 | 609,807 | 553,893 | 38,018 | 2,739,444 |
| Investments (Note (iii)) | | | | | | | | |
| – Financial assets at fair value through profit or loss (including derivatives) | – | 7,975 | 5,992 | 12,926 | 27,836 | 3,791 | 10,737 | 69,257 |
| – Available-for-sale financial assets | – | 12,234 | 11,847 | 49,199 | 163,821 | 59,912 | 2,546 | 299,559 |
| – Held-to-maturity investments | – | 1,327 | 2,364 | 15,016 | 106,212 | 228,206 | 12 | 353,137 |
| – Debt securities classified as receivables | – | 383,659 | 49,024 | 145,463 | 121,629 | 16,286 | 3 | 716,064 |
| Other assets | 11,988 | 4,641 | 5,435 | 10,980 | 2,052 | 1,065 | 83,618 | 119,779 |
| Total assets | 162,299 | 997,156 | 557,946 | 1,250,784 | 1,041,837 | 863,153 | 601,803 | 5,474,978 |
| Amounts due to banks and other financial Institutions | 378,326 | 339,324 | 146,406 | 247,988 | 22,805 | 3,735 | – | 1,138,584 |
| Deposits from customers (Note (iv)) | 2,009,673 | 306,603 | 294,047 | 603,543 | 357,544 | 288 | – | 3,571,698 |
| Financial liabilities at fair value through profit or loss (including derivatives) | 3,330 | 1,637 | 1,135 | 3,857 | 9,781 | 388 | 7,674 | 27,802 |
| Debt securities issued | – | 31,016 | 65,659 | 95,056 | 27,257 | 32,519 | – | 251,507 |
| Other liabilities | 63,634 | 22,662 | 7,666 | 13,531 | 11,503 | 2,518 | 2,115 | 123,629 |
| Total liabilities | 2,454,963 | 701,242 | 514,913 | 963,975 | 428,890 | 39,448 | 9,789 | 5,113,220 |
| (Short)/long position | (2,292,664) | 295,914 | 43,033 | 286,809 | 612,947 | 823,705 | 592,014 | 361,758 |

# 54 Risk management *(continued)*

## (c) Liquidity risk *(continued)*

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | Total |
| Cash and balances with central bank (Note (i)) | 149,938 | – | – | – | – | – | 504,847 | 654,785 |
| Amounts due from banks and other financial institutions | 8,481 | 327,078 | 75,539 | 69,849 | 43,562 | – | 542 | 525,051 |
| Loans and advances to customers (Note (ii)) | 1,532 | 118,394 | 388,499 | 970,897 | 518,480 | 427,737 | 23,215 | 2,448,754 |
| Investments (Note (iii)) | | | | | | | | |
| – Financial assets at fair value through profit or loss (including derivatives) | – | 3,815 | 11,041 | 7,540 | 15,872 | 1,476 | 9,761 | 49,505 |
| – Available-for-sale financial assets | – | 7,542 | 10,711 | 38,749 | 183,495 | 35,863 | 2,166 | 278,526 |
| – Held-to-maturity investments | – | 792 | 3,163 | 15,147 | 78,302 | 162,019 | 11 | 259,434 |
| – Debt securities classified as receivables | – | 33,693 | 41,529 | 152,693 | 152,995 | 27,837 | 5 | 408,752 |
| Other assets | 11,916 | 5,735 | 5,868 | 9,142 | 901 | 324 | 73,136 | 107,022 |
| Total assets | 171,867 | 497,049 | 536,350 | 1,264,017 | 993,607 | 655,256 | 613,683 | 4,731,829 |
| Amounts due to banks and other financial Institutions | 4,569 | 419,093 | 234,423 | 193,695 | 26,765 | 494 | – | 879,039 |
| Deposits from customers (Note (iv)) | 1,618,482 | 196,234 | 447,982 | 681,507 | 357,289 | 2,944 | – | 3,304,438 |
| Financial liabilities at fair value through profit or loss (including derivatives) | 977 | 2,380 | 1,622 | 670 | 7,332 | 359 | 10,275 | 23,615 |
| Debt securities issued | – | 5,859 | 31,757 | 9,145 | 28,610 | 30,784 | – | 106,155 |
| Other liabilities | 40,836 | 25,641 | 12,450 | 13,100 | 8,005 | 1,193 | 2,297 | 103,522 |
| Total liabilities | 1,664,864 | 649,207 | 728,234 | 898,117 | 428,001 | 35,774 | 12,572 | 4,416,769 |
| (Short)/long position | (1,492,997) | (152,158) | (191,884) | 365,900 | 565,606 | 619,482 | 601,111 | 315,060 |

Notes:

(i) For balances with central bank, the amount with an indefinite maturity represents statutory deposit reserve and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, the amount with an indefinite maturity represents loans of which the whole or part of the principals or interest was overdue for more than one month, and is stated net of appropriate allowances for impairment losses.

(iii) 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.

(iv) The deposits from customers that are repayable on demand included time deposits matured and awaiting for customers' instructions.

# 54 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 may vary significantly from this analysis.

| | 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| **Non-derivative financial assets** | | | | | | | | | |
| Cash and balances with central bank | 584,342 | 584,342 | 118,184 | – | – | – | – | – | 466,158 |
| Amounts due from banks and other financial institutions | 593,396 | 597,368 | 11,544 | 465,863 | 62,507 | 45,870 | 10,856 | – | 728 |
| Loans and advances to customers | 2,739,444 | 3,311,031 | 21,943 | 131,985 | 439,169 | 1,034,042 | 788,968 | 855,004 | 39,920 |
| Investments | | | | | | | | | |
| – Financial assets at fair value through profit or loss | 59,081 | 65,591 | – | 8,262 | 6,289 | 13,543 | 31,642 | 5,094 | 761 |
| – Available-for-sale financial assets | 299,559 | 362,387 | – | 12,823 | 12,878 | 52,637 | 199,827 | 81,673 | 2,549 |
| – Held-to-maturity investments | 353,137 | 502,642 | – | 2,255 | 3,869 | 18,881 | 131,033 | 346,591 | 13 |
| – Debt securities classified as receivables | 716,064 | 727,709 | – | 383,829 | 49,586 | 146,600 | 126,064 | 21,586 | 44 |
| Other assets | 16,914 | 16,485 | 9,390 | 1,163 | 797 | 1,715 | 371 | 33 | 3,016 |
| | 5,361,937 | 6,167,555 | 161,061 | 1,006,180 | 575,095 | 1,313,288 | 1,288,761 | 1,309,981 | 513,189 |
| **Non-derivative financial liabilities** | | | | | | | | | |
| Amounts due to banks and other financial institutions | 1,138,584 | 1,152,224 | 379,034 | 341,555 | 148,542 | 254,747 | 24,491 | 3,855 | – |
| Deposits from customers | 3,571,698 | 3,690,568 | 2,018,276 | 312,800 | 305,339 | 637,988 | 415,583 | 582 | – |
| Financial liabilities at fair value through profit or loss | 20,227 | 20,227 | 3,330 | 1,657 | 1,188 | 3,865 | 9,781 | 388 | 18 |
| Debt securities issued | 251,507 | 271,745 | – | 31,286 | 66,230 | 97,416 | 43,477 | 33,336 | – |
| Other liabilities | 85,202 | 86,797 | 54,350 | 19,267 | 1,537 | 3,919 | 4,648 | 1,010 | 2,066 |
| | 5,067,218 | 5,221,561 | 2,454,990 | 706,565 | 522,836 | 997,935 | 497,980 | 39,171 | 2,084 |
| Gross loan commitments | | 377,020 | 377,020 | – | – | – | – | – | – |

# 54 Risk management *(continued)*

## (c) Liquidity risk *(continued)*

| | 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| **Non-derivative financial assets** | | | | | | | | | |
| Cash and balances with central bank | 654,785 | 654,785 | 149,938 | – | – | – | – | – | 504,847 |
| Amounts due from banks and other financial institutions | 525,051 | 532,092 | 9,660 | 329,040 | 77,311 | 71,531 | 44,008 | – | 542 |
| Loans and advances to customers | 2,448,754 | 2,915,660 | 1,532 | 128,084 | 408,216 | 1,031,943 | 659,299 | 662,767 | 23,819 |
| Investments | | | | | | | | | |
| – Financial assets at fair value through profit or loss | 40,190 | 44,355 | – | 4,018 | 11,312 | 7,920 | 18,306 | 2,077 | 722 |
| – Available-for-sale financial assets | 278,526 | 346,918 | – | 8,066 | 11,784 | 42,673 | 227,113 | 55,094 | 2,188 |
| – Held-to-maturity investments | 259,434 | 378,053 | – | 1,553 | 4,393 | 17,684 | 98,688 | 255,724 | 11 |
| – Debt securities classified as receivables | 408,752 | 421,755 | – | 33,909 | 42,134 | 154,585 | 157,185 | 33,937 | 5 |
| Other assets | 17,313 | 17,313 | 8,741 | 1,650 | 350 | 490 | 276 | 70 | 5,736 |
| | 4,632,805 | 5,310,931 | 169,871 | 506,320 | 555,500 | 1,326,826 | 1,204,875 | 1,009,669 | 537,870 |
| **Non-derivative financial liabilities** | | | | | | | | | |
| Amounts due to banks and other financial institutions | 879,039 | 903,677 | 5,787 | 422,184 | 242,362 | 203,853 | 28,945 | 546 | – |
| Deposits from customers | 3,304,438 | 3,413,620 | 1,633,583 | 202,376 | 463,474 | 712,440 | 398,580 | 3,167 | – |
| Financial liabilities at fair value through profit or loss | 13,369 | 13,425 | 977 | 2,393 | 1,659 | 676 | 7,332 | 388 | – |
| Debt securities issued | 106,155 | 110,672 | – | 5,942 | 31,895 | 10,896 | 30,880 | 31,059 | – |
| Other liabilities | 58,174 | 58,174 | 23,741 | 21,529 | 1,218 | 3,338 | 5,410 | 1,072 | 1,866 |
| | 4,361,175 | 4,499,568 | 1,664,088 | 654,424 | 740,608 | 931,203 | 471,147 | 36,232 | 1,866 |
| Gross loan commitments | | 293,850 | 293,850 | – | – | – | – | – | – |

# 54 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, the Group continued to enhance its operational risk management by further improving operational risk management framework and methodologies, strengthening operational risk appraisal and assessment mechanisms, stepping up the identification, evaluation and monitoring of operational risk in key areas, and subjecting operational risk to its economic capital management. Various key risk indicators were compliant with the Group's risk preference requirements.

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

## (e) Capital management

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

– Keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion and strategic planning implementation for comprehensive and coordinated and sustainable growth;

– Comply with capital regulatory requirements, perform procedures to assess internal capital adequacy, openly disclose information related to capital management, fully cover all risks and ensure safe operation of the entire group;

– Put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate client pricing and decision-making, and increase capital deployment efficiency; and

– 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.

# 54 Risk management *(continued)*

## (e) Capital management *(continued)*

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

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers the Bank's all branches. As at 31 December 2015, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: WLB, CMBICHC, CMBFLC and CMFM.

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

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

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

# 54 Risk management *(continued)*

## (f) Use of derivatives

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

The Group enters into interest rate, currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivative financial instruments can be divided into 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/exchange rates of its assets and liabilities, as well as its analyses and judgement regarding future interest/exchange rate movements.

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

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

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

# 54 Risk management *(continued)*

## (f) Use of derivatives *(continued)*

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair value | |
| | Within 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Total | Assets | Liabilities |
| **Derivatives held for trading** | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 256,954 | 817,880 | 75,345 | 409 | 1,150,588 | 465 | (492) |
| Currency derivatives | | | | | | | |
| Spot | 35,908 | – | – | – | 35,908 | 30 | (17) |
| Forwards | 249,564 | 460,622 | 19,885 | – | 730,071 | 5,536 | (4,400) |
| Foreign exchange swaps | 133,169 | 133,294 | 2,687 | – | 269,150 | 3,123 | (1,682) |
| Options purchased | 27,528 | 18,238 | 716 | – | 46,482 | 634 | – |
| Options written | 33,865 | 20,185 | 588 | – | 54,638 | – | (876) |
| | 480,034 | 632,339 | 23,876 | – | 1,136,249 | 9,323 | (6,975) |
| Other derivatives | | | | | | | |
| Credit default swaps | – | 97 | – | – | 97 | – | (1) |
| Equity options purchased | 64 | – | – | – | 64 | 5 | – |
| Equity options written | 56 | – | – | – | 56 | – | (1) |
| | 120 | 97 | – | – | 217 | 5 | (2) |
| **Cash flow hedge derivatives** | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 1,700 | 9,800 | 18,010 | – | 29,510 | 336 | (14) |
| **Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss** | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 1,037 | 867 | 13,226 | 395 | 15,525 | 38 | (32) |
| Currency derivatives | | | | | | | |
| Foreign exchange swaps | 1,325 | 1,409 | 2,863 | – | 5,597 | 9 | (60) |
| | 2,362 | 2,276 | 16,089 | 395 | 21,122 | 47 | (92) |
| Total | | | | | | 10,176 | (7,575) |

# 54 Risk management *(continued)*

## (f) Use of derivatives *(continued)*

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair value | |
| | Within 3 months | Between 3 months and 1 year | Between 1 year and 5 years | More than 5 years | Total | Assets | Liabilities |
| **Derivatives held for trading** | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 161,828 | 107,663 | 29,995 | 752 | 300,238 | 204 | (240) |
| Currency derivatives | | | | | | | |
| Spot | 20,019 | – | – | – | 20,019 | 874 | (793) |
| Forwards | 285,302 | 395,102 | 46,906 | – | 727,310 | 5,362 | (4,142) |
| Foreign exchange swaps | 138,277 | 77,173 | 3,332 | – | 218,782 | 1,393 | (1,270) |
| Options purchased | 16,626 | 5,883 | – | – | 22,509 | 1,233 | – |
| Options written | 21,331 | 6,921 | – | – | 28,252 | – | (3,365) |
| | 481,555 | 485,079 | 50,238 | – | 1,016,872 | 8,862 | (9,570) |
| Other derivatives | | | | | | | |
| Credit default swaps | – | 775 | 93 | – | 868 | 1 | (2) |
| Equity options purchased | 53 | 29 | 24 | 36 | 142 | 15 | – |
| Equity options written | 29 | – | – | – | 29 | – | – |
| | 82 | 804 | 117 | 36 | 1,039 | 16 | (2) |
| **Cash flow hedge derivatives** | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 6,300 | 13,540 | 29,510 | – | 49,350 | 143 | (360) |
| **Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss** | | | | | | | |
| Interest rate derivatives | | | | | | | |
| Interest rate swaps | 124 | 515 | 9,941 | 377 | 10,957 | 73 | (29) |
| Currency derivatives | | | | | | | |
| Foreign exchange swaps | – | 343 | 3,286 | – | 3,629 | 17 | (45) |
| | 124 | 858 | 13,227 | 377 | 14,586 | 90 | (74) |
| Total | | | | | | 9,315 | (10,246) |

# 54 Risk management *(continued)*

## (f) Use of derivatives *(continued)*

### (i) Credit risk weighted amount

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.

| | 2015 | 2014 |
|---|---|---|
| Credit risk weighted assets of counterparties | | |
| Interest rate derivatives | 442 | 214 |
| Currency derivatives | 4,205 | 3,003 |
| Other derivatives | 3 | 2 |
| Credit valuation adjustment risk weighted assets | 10,518 | 5,830 |
| Total | 15,168 | 9,049 |

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

## (g) Fair value information

### (i) Financial assets

The Group's financial assets 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 or have been already stated at fair value, and their carrying value approximate their fair value.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 19). Loans and advances are mostly priced at floating rates close to the PBOC rates and repriced at market rates annually at least, 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 are close to the fair value.

Held-to-maturity investments are stated at amortised costs less impairment, and the fair value of listed debt securities classified as held-to-maturity investments are disclosed in Note 21(c).

# 54 Risk management *(continued)*

## (g) Fair value information *(continued)*

### (i) Financial assets *(continued)*

The carrying value, fair value and fair value hierarchy of held-to-maturity investments not measured or disclosed at fair value are listed as below:

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

| | 2015 | | | | | 2014 | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 | Carrying amount | Fair value |
| Held-to-maturity investments | 353,137 | 372,697 | 1,332 | 371,353 | 12 | 259,434 | 264,612 |

### (ii) Financial liabilities

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

| | 2015 | | | | | 2014 | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 | Carrying amount | Fair value |
| Subordinated notes issued | 32,519 | 34,680 | – | 34,680 | – | 32,396 | 32,898 |
| Long-term debt securities issued | 27,995 | 28,146 | – | 28,146 | – | 27,636 | 27,248 |
| | 60,514 | 62,826 | – | 62,826 | – | 60,032 | 60,146 |

# 55 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.

# 55 Significant accounting estimates and judgements

*(continued)*

## (a) Impairment losses on loans and receivables

Loan portfolios are assessed periodically to assess whether impairment losses exist and the amounts of impairment losses if they do. Objective evidence for impairment includes observable data indicating that there is a significant decrease in the estimated future cash flows from an individual loans and receivables. Objective evidence for impairment is described in accounting policy 2(n)(i). The impairment loss for a loans and receivables that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loans and receivables. When loans and receivables are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and receivables. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

## (b) Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical price of the specific financial assets as well as other factors, such as sector performance and financial information regarding the investee.

## (c) 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.

## (d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity investments are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale financial assets.

# 55 Significant accounting estimates and judgements

*(continued)*

## (e) 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.

## (f) Defined benefit plan

Actuarial assumptions are made in valuing future pension obligations as set out in Note 37(b). There is uncertainty that these assumptions will hold true in the future. They are reviewed periodically and are updated where necessary.

## (g) Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's critical accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of loss events that have been incurred but not reported ("IBNR") to the Group as of the end of the reporting period. The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim events is available. IBNR claims may not be apparent to the insured until many years after the event that gives rise to the claim has happened.

Estimation of the ultimate cost of certain liability claims can be a complex process. There are several sources of uncertainty that need to be considered in the estimating of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employees' compensation and other liability policies can be longer in tail and difficult to estimate. The Group has appointed an independent actuary to estimate the claim liabilities using established actuarial methodologies. The methodologies are statistical in nature and can be affected by various factors. The more significant factors that can affect the reliability of the liability estimation include jurisprudence that can broaden the intent and scope coverage of the protections offered in the insurance contracts issued by the Group, the extent to which actual claim results differ from historical experience and the time lag between the occurrence of the event and the report of such claim to the Group.

## (h) Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

# 56 Material related-party transactions

## (a) Material connected person information

The Bank's largest shareholder and its parent company and the Bank's subsidiaries.

| Company name | Registered location | Issued and fully paid capital | 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 | RMB13,750 million | 29.97% (Note (i)&(iii)) | – | Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service | The largest shareholder's parent company | Limited company | Li Jianhong |
| China Merchants Steam Navigation Company Limited (CMSNCL) | Beijing | RMB5,900 million | 13.04% (Note (ii)) | – | Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services | The largest shareholder | Joint stock limited company | Li Jianhong |
| CMB International Capital Holdings Corporation Limited (CMBICHC) | Hong Kong | HKD1,000 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 | Lian Bolin |
| Wing Lung Bank Limited (WLB) | Hong Kong | HKD1,161 million | – | 100% | Banking | Subsidiary | Limited company | Tian Huiyu |
| China Merchants Fund Management Co., Ltd (CMFM) | Shenzhen | RMB210 million | – | 55% | Asset Management | Subsidiary | Limited company | Li Hao |

Notes:

(i) CMG holds 29.97% of the Bank (2014: 20.00%) 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 2015 (2014: 12.54%).

# 56 Material related-party transactions *(continued)*

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

(iii) On 28 December 2015, the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC of the State Council") issued an approval letter approving that Sinotrans & CSC Holdings Co., Ltd. ("Sinotrans & CSC") be allocated into CMG at nil consideration. On 24 February 2016, the Enterprise Property Right Registration form of Sinotrans & CSC was confirmed by the SASAC of the State Council, confirmed that CMG is registered as the promoter of Sinotrans & CSC. The shares of the Bank held by Sinotrans & CSC and its subsidiary Wuhan Changjiang Shipping Company ("Wuhan Changjiang Shipping") are indirectly held by CMG (the "Change in Shareholding"), which lead to an aggregate of over 30.00% of the total share capital of the Bank are hold by CMG, with the completion of changes in equity, CMG (including Sinotrans and Wuhan Changjiang Shipping) can control the actual shares of the a total of 30.06%. In accordance with the "Administrative Rules on Acquisition of Listed Company", investor can actually control over 30% of the voting rights of the listed entity, will have the control of the listed entity.

Unfulfilled administrative procedures of the acquisition: (a) The concentration of operators caused by the acquisition requires review and reply from the Ministry of Commerce, and a reply of "not prohibited" should be obtained. (b) Matters related to the change of major shareholders' holding proportion caused by the acquisition are subject to the review of CBRC. (c) CMG should apply to the China Securities Regulatory Commission for an exemption from the obligation to make a general offer.

The change of the registered capital of each company

| Name of related party | 2015 | 2014 |
|---|---|---|
| CMG | **RMB13,750,000,000** | RMB11,550,000,000 |
| CMSNCL | **RMB5,900,000,000** | RMB4,300,000,000 |
| CMBICHC | **HKD1,000,000,000** | HKD1,000,000,000 |
| CMBFLC | **RMB6,000,000,000** | RMB6,000,000,000 |
| WLB | **HKD1,160,950,575** | HKD1,160,950,575 |
| CMFM | **RMB210,000,000** | RMB210,000,000 |

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 | | WLB | | CMFM | |
| | RMB | % | HKD | % | RMB | % | HKD | % | RMB | % |
| At 1 January 2015 | 3,162,424,323 | 12.54 | 1,000,000,000 | 100.00 | 6,000,000,000 | 100.00 | 1,160,950,575 | 100.00 | 115,500,000 | 55.00 |
| Change | 127,046,014 | 0.50 | – | – | – | – | – | – | – | – |
| At 31 December 2015 | 3,289,470,337 | 13.04 | 1,000,000,000 | 100.00 | 6,000,000,000 | 100.00 | 1,160,950,575 | 100.00 | 115,500,000 | 55.00 |

# 56 Material related-party transactions *(continued)*

## (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:

| | 2015 | 2014 |
|---|---|---|
| Short-term loans | 4.35% p.a. | 5.60% p.a. |
| Medium to long-term loans | 4.75% to 4.90% p.a. | 6.00% to 6.15% p.a. |
| Demand deposits | 0.35% p.a. | 0.35% p.a. |
| Time deposits | 1.10% to 2.75% p.a. | 2.35% to 4.00% p.a. |

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

## (c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 29.97% (2014: 20.00%) shares of the Bank as at 31 December 2015 (among them 13.04% shares is held by CMSNCL (2014: 12.54%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

| | 2015 | 2014 |
|---|---|---|
| On-balance sheet: | | |
| – Loans and advances to customers | 5,124 | 4,395 |
| – Investments | 12,346 | 5,282 |
| – Deposits from customers | 119,679 | 40,038 |
| Off-balance sheet: | | |
| – Irrevocable guarantees | 1,849 | 1,237 |
| – Irrevocable letters of credit | 93 | 1,186 |
| – Bills of acceptances | 58 | 47 |
| Interest income | 496 | 318 |
| Interest expense | 1,151 | 487 |
| Net fee and commission income | 580 | 175 |
| Other net income | 37 | 6 |

# 56 Material related-party transactions *(continued)*

## (d) Companies controlled by directors and supervisors other than those under Note 56(c) above

| | 2015 | 2014 |
|---|---|---|
| On-balance sheet: | | |
| – Loans and advances to customers | 6,110 | 8,390 |
| – Investments | 1,425 | 2,149 |
| – Deposits from customers | 30,929 | 10,454 |
| Off-balance sheet: | | |
| – Irrevocable guarantees | 1,076 | 1,320 |
| Interest income | 220 | 200 |
| Interest expense | 737 | 546 |
| Net fee and commission income | 204 | 144 |
| Other net income | 1 | – |

## (e) Associates and joint ventures other than those under Note 56(c) above

| | 2015 | 2014 |
|---|---|---|
| On-balance sheet: | | |
| – Loans and advances to customers | 5 | 7 |
| – Deposits from customers | 442 | 102 |
| Interest expense | 36 | 4 |
| Net fee and commission income | 454 | 349 |

## (f) Other shareholders holding more than 5% shares

| | 2015 | 2014 |
|---|---|---|
| On-balance sheet: | | |
| – Investments | 1,700 | 200 |
| – Deposits from customers | 10,287 | 3,520 |
| Off-balance sheet: | | |
| – Irrevocable guarantees | 6,000 | 6,000 |
| Interest income | 9 | 6 |
| Interest expense | 20 | 13 |
| Net fee and commission income | 915 | 71 |

# 56 Material related-party transactions *(continued)*

## (g) Subsidiaries

| | 2015 | 2014 |
|---|---|---|
| On-balance sheet | | |
| – Balances with banks and other financial institutions | **5,588** | 2,439 |
| – Placements with banks and other financial institutions | **28,102** | 29,826 |
| – Loans and advances to customers | **325** | 310 |
| – Investments | **440** | 440 |
| – Deposits from banks and other financial institutions | **13,497** | 18,688 |
| – Placements from banks and other financial institutions | **93** | 164 |
| – Deposits from customers | **1,657** | 1,374 |
| Off-balance sheet | | |
| – Irrevocable guarantees | **3,269** | 117 |
| – Bills of acceptances | **–** | 112 |
| Interest income | **31** | 661 |
| Interest expense | **426** | 354 |
| Net fee and commission | **1,494** | 868 |
| Other net income | **(4)** | (2) |

Any significant balances and transactions between the Bank and its subsidiaries have been offset 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.

| | 2015<br>RMB'000 | 2014<br>RMB'000<br>(Note 8) |
|---|---|---|
| Salaries and other emoluments | **46,236** | 42,534 |
| Discretionary bonuses (Note 8(i)) | **–** | 14,751 |
| Share-based payment | **9,556** | 15,169 |
| Contributions to defined contribution retirement schemes | **5,475** | 5,427 |
| | **61,267** | 77,881 |

The above share-based payments represent the estimated fair value of the share appreciation rights granted (Note 37(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 2(u)(iii); 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.

# 56 Material related-party transactions *(continued)*

## (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 2015 and 31 December 2014.

# 57 Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the non-wholly owned subsidiaries. There is no subsidiary of the Group which has material non-controlling interests during the reporting period.

# 58 Transfer 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 trusts. 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 sells the credit assets to special purpose trust, and then the special purpose trust issues the assets backed securities to investors.

The Group's book value of securitised credit assets on transfer day is RMB47,565 million for the year ended 31 December 2015. The asset value of senior tranches of securitisation of credit assets is RMB898 million at Group level. The asset value of subordinated tranches of securitisation of credit assets is RMB194 million at Group level.

# 59 Interests in unconsolidated structured entities

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

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

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 31 December 2015 and 31 December 2014 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 2015 and 31 December 2014 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | | | | | |
| | Amounts held under resale agreements | Available-for-sale financial assets | Held-to-maturity investments | Debt securities classified as receivables | Total | Maximum exposure |
| Wealth management products | – | – | – | 300 | 300 | 300 |
| Asset management schemes | 11,381 | – | – | 606,424 | 617,805 | 617,805 |
| Trust beneficiary rights | 10,693 | – | – | 78,067 | 88,760 | 88,760 |
| Asset backed securities | – | 2,773 | 2,672 | 118 | 5,563 | 5,563 |
| Investment in funds | – | 992 | – | – | 992 | 992 |
| | 22,074 | 3,765 | 2,672 | 684,909 | 713,420 | 713,420 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount | | | | | |
| | Amounts held under resale agreements | Available-for-sale financial assets | Held-to-maturity investments | Debt securities classified as receivables | Total | Maximum exposure |
| Wealth management products | – | – | – | 6,140 | 6,140 | 6,140 |
| Asset management schemes | 45,492 | – | – | 247,484 | 292,976 | 292,976 |
| Trust beneficiary rights | 63,484 | – | – | 112,038 | 175,522 | 175,522 |
| Asset backed securities | – | 2,135 | 1,367 | – | 3,502 | 3,502 |
| Investment in funds | – | 317 | – | – | 317 | 317 |
| | 108,976 | 2,452 | 1,367 | 365,662 | 478,457 | 478,457 |

The maximum exposures held by the Group in the subordinated tranches of assets backed securities and investments in funds are the fair value of the assets at the reporting date. The maximum exposures in the wealth management products, asset management schemes, trust beneficiary rights, senior tranches of assets backed securities are the amortised cost 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.

# 59 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. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of investment products to investors. Interest held by the Group includes fees charged on management services provided.

As at 31 December 2015, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB1,820,694 million (2014: RMB831,473 million).

As at 31 December 2015, the balance of reverse repurchase transactions and money market placement between the Group and its non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB208,150 million (2014: RMB117,333 million) and RMB5,723 million (2014: RMB11,470 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During the year of 2015, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB7,728 million (2014: RMB5,373 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2015 with a maturity date before 31 December 2015 was RMB2,622,189 million (2014: RMB2,420,525 million).

# 60 The Bank's statement of financial position

| | 2015 | 2014 (Restated) |
|---|---|---|
| **Assets** | | |
| Cash | 13,783 | 14,290 |
| Precious metals | 16,099 | 15,176 |
| Balances with central bank | 543,228 | 630,661 |
| Balances with banks and other financial institutions | 55,927 | 47,015 |
| Placements with banks and other financial institutions | 202,534 | 137,848 |
| Amounts held under resale agreements | 342,928 | 343,955 |
| Loans and advances to customers | 2,506,618 | 2,222,388 |
| Interest receivable | 23,648 | 22,411 |
| Financial assets at fair value through profit or loss | 54,960 | 37,218 |
| Derivative financial assets | 9,607 | 8,346 |
| Available-for-sale financial assets | 276,846 | 262,942 |
| Held-to-maturity investments | 351,704 | 254,708 |
| Debt securities classified as receivables | 715,864 | 408,504 |
| Investments in subsidiaries | 40,664 | 39,664 |
| Interest in joint ventures | 1,391 | 1,223 |
| Property and equipment | 24,091 | 23,510 |
| Investment properties | 535 | 581 |
| Intangible assets | 2,596 | 2,279 |
| Deferred tax assets | 15,626 | 9,962 |
| Other assets | 9,388 | 8,434 |
| **Total assets** | 5,208,037 | 4,491,115 |

# 60 The Bank's statement of financial position *(continued)*

| | Note | 2015 | 2014 (Restated) |
|---|---|---|---|
| **Liabilities** | | | |
| Borrowing from central bank | | **62,600** | 20,000 |
| Deposits from banks and other financial institutions | | **702,862** | 700,042 |
| Placements from banks and other financial institutions | | **112,659** | 40,059 |
| Amounts sold under repurchase agreements | | **185,285** | 66,075 |
| Deposits from customers | | **3,421,403** | 3,158,746 |
| Interest payable | | **37,559** | 43,873 |
| Financial liabilities at fair value through profit or loss | | **19,786** | 12,929 |
| Derivative financial liabilities | | **7,084** | 9,266 |
| Debt securities issued | | **235,854** | 84,559 |
| Salaries and welfare payable | | **5,363** | 5,367 |
| Tax payable | | **12,100** | 11,105 |
| Other liabilities | | **53,441** | 27,843 |
| **Total liabilities** | | **4,855,996** | **4,179,864** |
| **Equity** | 48(a) | | |
| Share capital | | **25,220** | 25,220 |
| Capital reserve | | **76,681** | 76,681 |
| Investment revaluation reserve | | **5,769** | 1,673 |
| Hedging reserve | | **241** | (163) |
| Surplus reserve | | **34,009** | 28,690 |
| Regulatory general reserve | | **63,928** | 53,208 |
| Retained profits | | **128,791** | 109,043 |
| Proposed profit appropriations | | **17,402** | 16,897 |
| Exchange reserve | | **–** | 2 |
| **Total equity** | | **352,041** | 311,251 |
| **Total equity and liabilities** | | **5,208,037** | 4,491,115 |

Approved and authorized for issue by the Board of Directors on 30 March 2016.

**Li Jianhong**
*Director*

**Tian Huiyu**
*Director*

Company Chop

# 61 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2015

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements.

| | Effective for accounting periods beginning on or after |
|---|---|
| IFRS 9, Financial instruments | 1 January 2018 |
| IFRS 15, Revenue from Contracts with Customers | 1 January 2017 |

So far the Group has concluded that the adoption of other standards is unlikely to have a significant impact on its operating results and financial position, except for IFRS 9 "Financial instruments". Since the Group is in the process of making an assessment on overall impact of IFRS 9, the Group cannot quantify the impact on its operating results and financial position.

# 62 Non-adjusting events after the reporting period

Save as otherwise disclosed in Note 22, Note 46(b) and Note 56(a), the Group has no significant post reporting date event subsequent to the end of the reporting period as at the date of approval to the financial statements.

# 63 Comparative figures

During the financial year, the Bank has reclassified the credit card holder instalment income from commission revenue to interest revenue, and has adjusted the corresponding contemporary comparison figures.

In 2015, CBRC reclassified the National Development Bank from commercial banks and other financial institutions to policy banks, the corresponding investments are reclassified, comparative figures in Note 21 has been adjusted.

Equity listed in the Bank's statement of financial position (Note 60) is restated for the early adoption of the Amendments to IAS 27 "Separate Financial Statements – Equity Method in Separate Financial Statements" (Note 2(b)).

# Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

## (A) Capital adequacy ratio

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

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

| | 2015 | 2014 |
|---|---|---|
| Core tier-1 capital adequacy ratio | 10.83% | 10.44% |
| Tie-1 capital adequacy ratio | 10.83% | 10.44% |
| Capital adequacy ratio | 12.57% | 12.38% |
| Components of capital base | | |
| Core tier-1 capital: | | |
| Qualifying portion of share capital | 25,220 | 25,220 |
| Qualifying portion of capital reserve | 73,889 | 69,227 |
| Surplus reserves | 33,981 | 28,664 |
| Regulatory general reserve | 64,680 | 53,979 |
| Retained profits | 162,405 | 137,910 |
| Qualifying portion of non-controlling interests | 329 | 288 |
| Others (note (i)) | (304) | (1,308) |
| Total core tier-1 capital | 360,200 | 313,980 |
| Regulatory deductions from core tier-1 capital | 12,766 | 12,003 |
| Net core tier-1 capital | 347,434 | 301,977 |
| Other tier-1 capital (Note (ii)) | 10 | 5 |
| Net tier-1 capital | 347,444 | 301,982 |
| Tier-2 capital: | | |
| Qualifying portion of tier-2 capital instruments and their premium | 30,000 | 30,000 |
| Surplus provision for loans impairment | 24,006 | 24,190 |
| Qualifying portion of non-controlling interests | 1,959 | 2,162 |
| Total tier-2 capital | 55,965 | 56,352 |
| Regulatory deductions from core tier-2 capital | – | – |
| Net tier-2 capital | 55,965 | 56,352 |
| Net capital | 403,409 | 358,334 |
| Total risk-weighted assets | 3,208,152 | 2,893,732 |

Note (i): Others represent exchange reserve of foreign currency financial statements under *CBRC's Administrative Measures on the Capital of Commercial Banks (Trial).*

Note (ii): The Group's other tier-1 capital is qualifying portion of non-controlling interests.

# (A) Capital adequacy ratio *(continued)*

In 2015, in accordance with the advanced capital management approach approved by CBRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 10.38%, tier-1 capital adequacy ratio is 10.38%, capital adequacy ratio is 12.15%, net capital is RMB360,460 million and total risk-weighted assets is RMB2,966,543 million.

In 2015, by the method of calculating credit risk using the risk-weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 9.93%, tier-1 capital adequacy ratio is 9.93%, capital adequacy ratio is 11.91%, net capital is RMB416,834 million and total risk-weighted assets is RMB3,499,231 million.

In 2015, by the method of calculating credit risk using the risk-weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Bank's core tier-1 capital adequacy ratio is 9.44%, tier-1 capital adequacy ratio is 9.44%, capital adequacy ratio is 11.46%, net capital is RMB373,866 million and total risk-weighted assets is RMB3,261,357 million.

# (B) Leverage Ratio

In accordance with the CBRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio and relevant components as at 31 December 2015 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:

| | 2015 |
|---|---|
| Total consolidated assets as per published financial statements | 5,474,978 |
| Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | (2,717) |
| Adjustments for fiduciary assets | – |
| Adjustments for derivative financial instruments | 10,813 |
| Adjustment for securities financing transactions | 13,508 |
| Adjustment for off-balance sheet items | 791,776 |
| Other adjustments | (12,766) |
| **Balance of adjusted on-balance sheet and off-balance sheet assets** | **6,275,592** |

# (B) Leverage Ratio *(continued)*

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

| | 2015 |
|---|---|
| On-balance sheet items (excluding derivatives and securities financing transactions (SFT)) | 5,251,604 |
| Less: Asset amounts deducted in determining Basel III Tier 1 capital | (12,765) |
| **Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)** | 5,238,839 |
| Replacement cost associated with all derivatives transactions (net of eligible cash variation margin) | 9,780 |
| Add-on amounts for potential future exposure associated with all derivatives transactions | 11,163 |
| 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 | 46 |
| Less: Adjusted effective notional deductions for written credit derivatives | – |
| **Total derivative exposures** | 20,989 |
| Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | 210,481 |
| Less: Netted amounts of cash payables and cash receivables of gross SFT assets | – |
| Counterparty credit risk exposure for SFT assets | 13,508 |
| Agent transaction exposures | – |
| **Total securities financing transaction exposures** | 223,989 |
| Off-balance sheet exposure at gross notional amount | 1,302,755 |
| Less: Adjustments for conversion to credit equivalent amounts | (510,979) |
| **Balance of adjusted off-balance sheet assets** | 791,776 |
| **Net tier 1 capital** | 347,444 |
| **Balance of adjusted on-balance sheet and off-balance sheet assets** | 6,275,592 |
| **Leverage ratio** | 5.54% |

# (C) Liquidity Coverage Ratio

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

| | Quarter ended 31 December 2015 | |
|---|---|---|
| | Unweighted amount (Average value) | Weighted amount (Average value) |
| **High quality liquid assets** | | |
| Total high quality liquid assets (HQLA) | | 655,927 |
| **Cash outflows** | | |
| Retail deposits and small business funding, of which: | | |
| Stable deposits | 1,616 | 81 |
| Less stable deposits | 1,370,543 | 137,054 |
| Unsecured wholesale funding, of which: | | |
| Business relations deposits(excluding correspondent banks operations) | 1,037,960 | 257,764 |
| Non-business relations deposits(including all the counterparties) | 1,448,892 | 920,230 |
| Liabilities and obligations arising from unsecured funding | 1,548 | 1,548 |
| Secured funding | | 25,408 |
| Additional requirements, of which: | | |
| Cash outflows arising from derivative contracts and other transactions arising from related collateral requirements | 23,219 | 22,975 |
| Cash outflows arising from secured debt instruments funding | 108 | 108 |
| Committed credit facilities and committed liquidity facilities | 430,248 | 24,691 |
| Other contractual lending obligations | 42,267 | 42,267 |
| Other contingent funding obligations | 912,536 | 18,453 |
| **Total cash outflows** | | 1,450,579 |
| **Cash inflows** | | |
| Secured lending transactions(including reverse repurchase agreements and securities borrowed) | 274,089 | 274,089 |
| Cash inflows from fully honoured payments | 1,151,766 | 530,114 |
| Other cash inflows | 112,525 | 68,016 |
| **Total cash inflows** | | 872,219 |

| | Adjusted value |
|---|---|
| TOTAL HQLA | 655,927 |
| TOTAL NET CASH OUTFLOWS | 578,360 |
| LCR (%) (i) | 113.61% |

Note:

(i) LCR is calculated based on the arithmetic mean of the item as at the end of each month for the latest quarter during the reporting period.

# (D) Currency concentrations other than RMB

| | 2015 | | | |
|---|---|---|---|---|
| | USD | HKD | Others | Total |
| | (in millions of RMB) | | | |
| *Non-structural position* | | | | |
| Spot assets | 376,968 | 175,507 | 36,928 | 589,403 |
| Spot liabilities | (165,555) | (132,478) | (74,897) | (372,930) |
| Forward purchased | 495,820 | 61,572 | 93,045 | 650,437 |
| Forward written | (482,020) | (52,239) | (56,359) | (590,618) |
| Net option position | (15,074) | 8 | (194) | (15,260) |
| Net long position | 210,139 | 52,370 | (1,477) | 261,032 |
| Net structural position | 537 | 19,295 | – | 19,832 |

| | 2014 | | | |
|---|---|---|---|---|
| | USD | HKD | Others | Total |
| | (in millions of RMB) | | | |
| *Non-structural position* | | | | |
| Spot assets | 360,138 | 146,351 | 30,426 | 536,915 |
| Spot liabilities | (299,403) | (211,982) | (28,423) | (539,808) |
| Forward purchased | 429,980 | 178,230 | 50,907 | 659,117 |
| Forward written | (439,124) | (79,240) | (49,483) | (567,847) |
| Net option position | 151 | 7 | (674) | (516) |
| Net long position | 51,742 | 33,366 | 2,753 | 87,861 |
| Net structural position | 22 | 32,713 | 2 | 32,737 |

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.

# (E) International claims

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

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

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

| | 2015 | | | |
|---|---|---|---|---|
| | Banks and other financial institutions | Public sector entities | Others | Total |
| Foreign currencies transactions in Mainland China | 39,779 | 3,163 | 110,789 | 153,731 |
| Asia Pacific excluding Mainland China | 90,109 | 33,014 | 129,176 | 252,299 |
| – of which attributed to Hong Kong | 46,499 | 32,795 | 119,656 | 198,950 |
| Europe | 12,825 | – | 2,510 | 15,335 |
| North and South America | 21,193 | 1,267 | 26,743 | 49,203 |
| | 163,906 | 37,444 | 269,218 | 470,568 |

| | 2014 | | | |
|---|---|---|---|---|
| | Banks and other financial institutions | Public sector entities | Others | Total |
| Foreign currencies transactions in Mainland China | 44,309 | 4,201 | 165,281 | 213,791 |
| Asia Pacific excluding Mainland China | 30,496 | 81,319 | 63,951 | 175,766 |
| – of which attributed to Hong Kong | 19,040 | 74,570 | 60,718 | 154,328 |
| Europe | 2,971 | 16,275 | 213 | 19,459 |
| North and South America | 8,303 | 1,438 | 3,131 | 12,872 |
| | 86,079 | 103,233 | 232,576 | 421,888 |

# (F) Further analysis on loans and advances to customers analysed by industry sector

## Operation in Mainland China

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Amount | % of gross loans and advances covered by collateral or other security | Amount | % of gross loans and advances covered by collateral or other security |
| Manufacturing | 318,679 | 43 | 342,005 | 41 |
| Wholesale and retail | 236,513 | 59 | 259,298 | 51 |
| Property development | 175,912 | 76 | 143,952 | 80 |
| Transportation, storage and postal services | 145,473 | 38 | 140,548 | 37 |
| Production and supply of electric power, heating power, gas and water | 109,942 | 46 | 98,514 | 49 |
| Construction | 96,387 | 38 | 98,350 | 40 |
| Leasing and commercial services | 80,788 | 41 | 49,343 | 43 |
| Mining | 52,178 | 43 | 61,179 | 44 |
| Water, environment and public utilities management | 33,431 | 32 | 30,328 | 32 |
| Telecommunications, software and IT services | 28,076 | 38 | 20,092 | 25 |
| Others | 76,477 | 46 | 65,045 | 41 |
| Corporate loans and advances | 1,353,856 | 49 | 1,308,654 | 47 |
| Discounted bills | 89,815 | 100 | 75,007 | 100 |
| Residential mortgage | 491,290 | 100 | 321,424 | 100 |
| Credit cards | 312,985 | – | 219,621 | – |
| Micro-finance loans | 308,973 | 92 | 336,924 | 89 |
| Others | 96,828 | 89 | 78,731 | 94 |
| Retail loans and advances | 1,210,076 | 71 | 956,700 | 73 |
| Gross loans and advances to customers | 2,653,747 | 61 | 2,340,361 | 59 |

# (F) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

## Operation outside Mainland China

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | 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 | 46,585 | 54 | 29,410 | 68 |
| Property development | 37,168 | 53 | 36,031 | 67 |
| Wholesale and retail | 14,860 | 95 | 42,097 | 86 |
| Transport and transport equipment | 13,876 | 66 | 7,925 | 61 |
| Manufacturing | 13,468 | 46 | 18,265 | 44 |
| Recreational activities | 3,627 | 41 | 431 | 96 |
| Information technology | 2,025 | 28 | 2,221 | 83 |
| Others | 22,305 | 70 | 22,551 | 68 |
| Corporate loans and advances | 153,914 | 60 | 158,931 | 70 |
| Residential mortgage | 8,165 | 100 | 7,754 | 100 |
| Credit cards | 259 | – | 267 | – |
| Micro-finance loans | 1,804 | 97 | 1,889 | 99 |
| Others | 6,397 | 52 | 4,717 | 53 |
| Retail loans and advances | 16,625 | 80 | 14,627 | 83 |
| Gross loans and advances to customers | 170,539 | 62 | 173,558 | 71 |

# (F) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

The overdue amounts, impaired amounts, individual and collective assessment allowances, impairment losses charged to profit and loss and impaired loans and advances written off amounts during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue loans and advances | Impaired loans and advances | Individually assessed impairment allowance | Collectively assessed impairment allowance | Impairment losses charged to consolidated statement of profit or loss during the year | Impaired loans and advances written off during the year |
| Manufacturing | 24,338 | 15,237 | 4,551 | 15,541 | 20,689 | 15,862 |
| Wholesale and retail | 14,615 | 10,279 | 6,556 | 5,990 | 11,211 | 9,381 |
| Residential mortgage | 4,423 | 2,258 | – | 5,769 | 2,599 | 129 |
| Micro-finance loans | 9,974 | 4,744 | – | 8,502 | 7,079 | 7,406 |
| Credit card | 10,490 | 4,292 | – | 6,886 | 5,166 | 1,563 |

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Overdue loans and advances | Impaired loans and advances | Individually assessed impairment allowance | Collectively assessed impairment allowance | Impairment losses charged to consolidated statement of profit or loss during the year | Impaired loans and advances written off during the year |
| Manufacturing | 14,639 | 9,627 | 4,753 | 11,055 | 9,633 | 5,550 |
| Wholesale and retail | 10,686 | 6,547 | 2,761 | 8,231 | 6,663 | 3,427 |
| Residential mortgage | 3,015 | 870 | – | 3,273 | 476 | 276 |
| Micro-finance loans | 9,610 | 3,612 | – | 8,458 | 4,796 | 2,884 |
| Credit card | 6,574 | 2,064 | – | 3,227 | 2,110 | 977 |

# (G) Overdue loans and advances to customers

## (i) By geographical segments

| | 2015 | 2014 |
|---|---|---|
| Headquarters | 4,525 | 2,237 |
| Yangtze River Delta region | 9,430 | 8,262 |
| Bohai Rim region | 3,471 | 2,459 |
| Pearl River Delta and West Coast region | 5,841 | 3,656 |
| Northeast region | 2,963 | 1,717 |
| Central region | 9,041 | 3,851 |
| Western region | 8,196 | 2,207 |
| Subsidiaries | 1,505 | 835 |
| Total | 44,972 | 25,224 |

## (ii) By overdue period

| | 2015 | 2014 |
|---|---|---|
| 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) | 13,798 | 10,295 |
| – between 6 and 12 months (inclusive) | 18,449 | 9,247 |
| – over 12 months | 12,725 | 5,682 |
| Total | 44,972 | 25,224 |
| As a percentage of total gross loans and advances: | | |
| – between 3 and 6 months (inclusive) | 0.49% | 0.41% |
| – between 6 and 12 months (inclusive) | 0.65% | 0.37% |
| – over 12 months | 0.45% | 0.23% |
| Total | 1.59% | 1.01% |

# (G) Overdue loans and advances to customers *(continued)*

## (iii) Collateral information

| | 2015 | 2014 |
|---|---|---|
| Secured portion of overdue loans and advances | **16,817** | 8,647 |
| Unsecured portion of overdue loans and advances | **28,155** | 16,577 |
| Value of collaterals held against overdue loans and advances | **18,790** | 9,384 |
| Provision of overdue loans and advances for which impairment losses are individually assessed | **13,217** | 8,336 |

The amount of the Group's overdue loans and advances to financial institutions as at 31 December 2015 was RMB11 million (2014: 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 collaterals of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collaterals 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.

# (H) Rescheduled loans and advances to customers

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | | % of total loans and advances | | % of total loans and advances |
| Rescheduled loans and advances to customers | 4,531 | 0.16% | 996 | 0.04% |
| Less: | | | | |
| – rescheduled loans and advances overdue more than 90 days | 2,506 | 0.09% | 534 | 0.02% |
| Rescheduled loans and advances overdue less than 90 days | 2,025 | 0.07% | 462 | 0.02% |

The amount of the Group's rescheduled loans and advances to financial institutions as at 31 December 2015 was 1 million (2014: 1 million).

# (I) Non-bank Mainland China exposures

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 31 December 2015 and 31 December 2014, most of the Bank's exposures arose from businesses with Mainland non-bank institutions or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

# (J) 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.

# (J) 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.

http : //www.cmbchina.com
Add : China Merchants Bank Tower, No 7088,
Shennan Boulevard, Shenzhen, China
Tel : (0755) 83198888
Fax : (0755) 83195555
Postcode : 518040