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

2017 Interim Report

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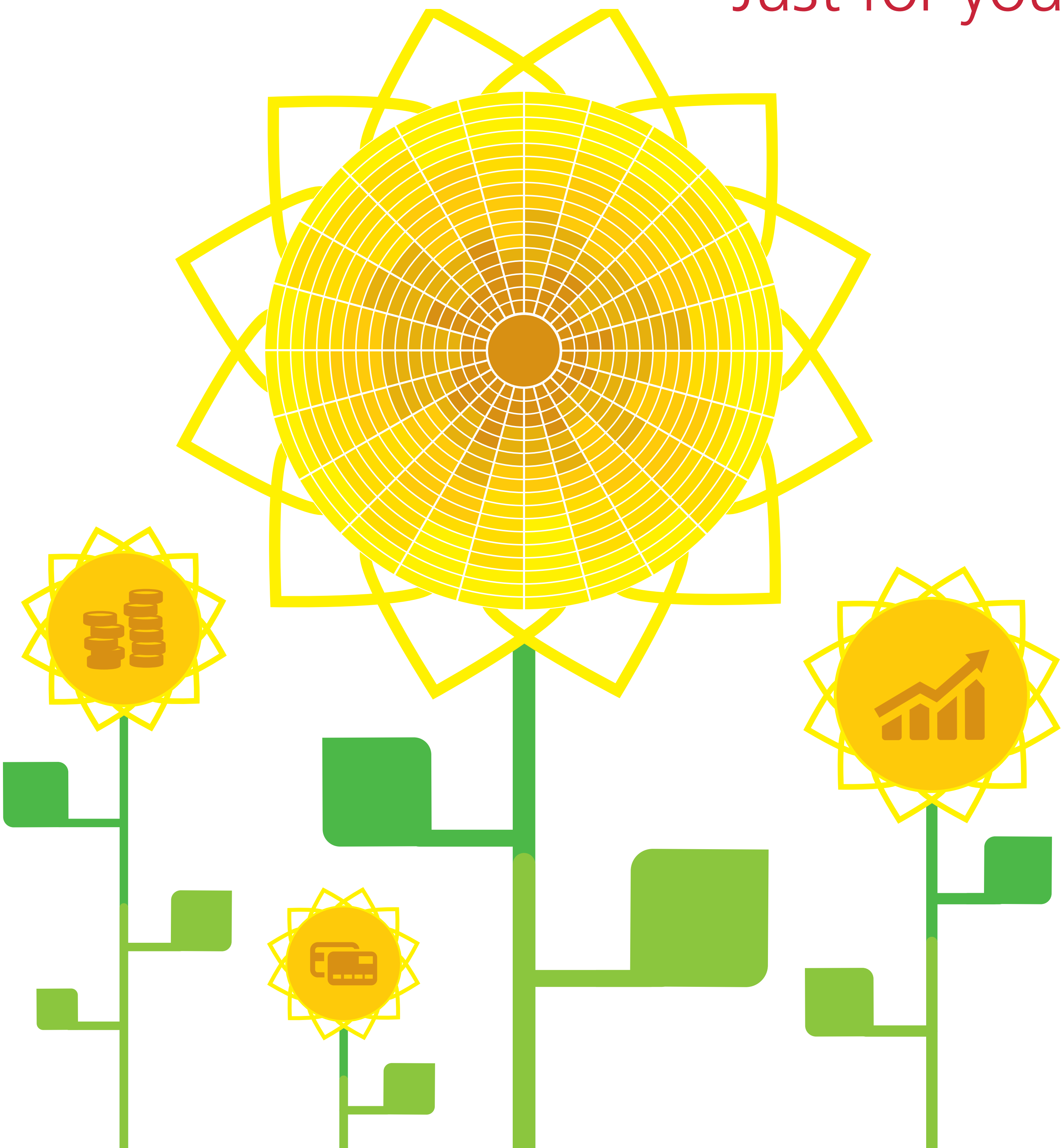

Important Notice

1. The Board of Directors, the Board of Supervisors, directors, supervisors and senior management of the Company confirm that the contents in this report are true, accurate, and complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.

2. The 14^{th} meeting of the Tenth Session of the Board of Directors of the Company was held at its Shenzhen Shekou Training Center on 18 August 2017. The meeting was presided by Li Jianhong, Chairman of the Board. 16 out of 16 eligible directors attended the meeting in person. 8 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the "Company Law of the People's Republic of China" and the "Articles of Association of China Merchants Bank Co., Ltd.".

3. The Company will not implement the profit appropriation nor will it transfer any capital reserve into share capital for the first half of 2017.

4. The Company's 2017 interim financial report is unaudited.

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

6. Li Jianhong, Chairman of the Company, Tian Huiyu, President and Chief Executive Officer, Li Hao, First Executive Vice President and Chief Financial Officer, and Li Li, the person in charge of the Finance and Accounting Department, hereby make representations in respect of the truthfulness, accuracy and completeness of the financial statements in this report.

7. We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "will", "may", "expect", "try", "strive", "plan", "anticipate", "aim at", and similar expressions to indicate forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we give no assurance that these expectations will turn into reality or prove to be correct. Therefore they should not be deemed as the Group's commitments. Investors should not place undue reliance on such statements and should pay attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business, or other performances of the Group, and are subject to a number of uncertainties which may cause substantial differences from those in the actual results.

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Definitions

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

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

China Banking 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.

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

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

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

Significant Risk Warning

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

I Company Information

1.1 Company Profile

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

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

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:	Deloitte Touche Tohmatsu Certified Public Accountants LLP
	Office Address: 30th Floor, Bund Center, 222 Yan'an Road East, Shanghai, China
International Auditor:	Deloitte Touche Tohmatsu
	Office Address: 35th Floor, One Pacific Place, 88 Queensway, Hong Kong

1.1.8 **Legal Advisor as to PRC Law:** Jun He Law Offices
Legal Advisor as to Hong Kong Law: Herbert Smith Freehills

1.1.9 **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 Center, 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"* website of Shanghai Stock Exchange (www.sse.com.cn), website of the Company (www.cmbchina.com)
Hong Kong:	website of SEHK (www.hkex.com.hk), website of the Company (www.cmbchina.com)

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

1.1.12 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 Core Competitiveness

The Company has a leading position in retail finance business. 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. Various businesses such as bills business, asset management business, custody business and financial market business have all achieved healthy development. Guided by the goals of "professionalism, delayering and intensification", the Company has been constantly improving its organisational management system, optimising its operation process, and improving its management and operation efficiency. The powerful IT team as well as the leading IT platform have enabled us to embrace internet development, constantly innovate products, services, channels and business model, and improve the efficiency and quality of customer services and reduce operating costs. In the course of our business development, we have adhered to the service concept of "We are here just for you". The Company has rapidly developed and reasonably deployed its cross-border finance platform, and is therefore able to provide quality cross-border finance services to its customers.

II Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

Operating Results

	January to June 2017	January to June 2016	Changes +/(-)%
	(in millions of RMB)		
Net operating income (Note)	**113,032**	113,394	(0.32)
Profit before tax	**49,942**	45,495	9.77
Net profit attributable to the Bank's shareholders	**39,259**	35,231	11.43

Per Share

	January to June 2017	January to June 2016	Changes +/(-)%
	(RMB)		
Basic earnings attributable to the Bank's shareholders	**1.56**	1.40	11.43
Diluted earnings attributable to the Bank's shareholders	**1.56**	1.40	11.43

Volume Indicators

	30 June 2017	31 December 2016	Changes +/(-)%
	(in millions of RMB)		
Total assets	**6,199,690**	5,942,311	4.33
of which: total loans and advances to customers	**3,539,938**	3,261,681	8.53
Total liabilities	**5,777,866**	5,538,949	4.31
of which: total deposits from customers	**4,142,254**	3,802,049	8.95
Total equity attributable to the Bank's shareholders	**419,377**	402,350	4.23
Period-end net assets per share attributable to the Bank's shareholders (RMB/Share)	**16.63**	15.95	4.26

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

2.2 Financial Ratios

	January to June 2017	January to December 2016 (%)	January to June 2016	Year-on-year changes
Profitability indicators[(1)]				
Return on average assets (after tax) attributable to the Bank's shareholders	**1.29**	1.09	1.28	Increased by 0.01 percentage point
Return on average equity (after tax) attributable to the Bank's shareholders	**19.11**	16.27	19.07	Increased by 0.04 percentage point
Net interest spread	**2.31**	2.37	2.45	Decreased by 0.14 percentage point
Net interest margin	**2.43**	2.50	2.58	Decreased by 0.15 percentage point
As percentage of net operating income				
– Net interest income	**62.72**	64.01	59.51	Increased by 3.21 percentage points
– Net non-interest income	**37.28**	35.99	40.49	Decreased by 3.21 percentage points
Cost-to-income ratio (excluding taxes and surcharges, same as below)	**25.88**	27.84	23.34	Increased by 2.54 percentage points

	30 June 2017	31 December 2016 (%)	30 June 2016	Changes over 2016 year-end
Asset quality indicators				
Non-performing loan ratio	**1.71**	1.87	1.83	Decreased by 0.16 percentage point
Allowance coverage ratio of non-performing loans[(2)]	**224.69**	180.02	189.11	Increased by 44.67 percentage points
Allowance ratio of loans[(3)]	**3.84**	3.37	3.45	Increased by 0.47 percentage point
Capital adequacy indicators under the advanced approach[(4)]				
Tier 1 capital adequacy ratio	**12.42**	11.54	12.09	Increased by 0.88 percentage point
Capital adequacy ratio	**14.59**	13.33	13.90	Increased by 1.26 percentage points
Equity to total assets	**6.80**	6.79	6.85	Increased by 0.01 percentage point

Notes: (1) The indicators were calculated on an annualised basis.

(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) As at 30 June 2017, the Group's capital adequacy ratio and Tier 1 capital adequacy ratio were 11.85% and 9.98%, respectively in accordance with the weighted approach.

III Report of the Board of Directors

3.1 Summary of the Overall Operation

In the first half of 2017, under the complicated external environment, the Group continued to implement and accelerate its strategic transformation and maintained a sound momentum of overall development, which were reflected mainly in the following aspects:

Earnings increased steadily. In the first half of 2017, the Group realised a net profit attributable to the shareholders of the Bank of RMB39.259 billion, representing a year-on-year increase of 11.43%; the net interest income was RMB70.896 billion, representing a year-on-year increase of 5.07%; the net non-interest income was RMB42.136 billion, representing a year-on-year decrease of 8.23%. The annualised return on average asset (ROAA) and return on average equity (ROAE) attributable to the shareholders of the Bank were 1.29% and 19.11%, up by 0.01 percentage point and 0.04 percentage point from the previous year, respectively.

The scale of assets and liabilities expanded modestly. As at 30 June 2017, the Group's total assets amounted to RMB6,199.690 billion, representing an increase of 4.33% as compared with that at the end of the previous year. The total loans and advances to customers amounted to RMB3,539.938 billion, representing an increase of 8.53% as compared with that at the end of the previous year. Total liabilities amounted to RMB5,777.866 billion, representing an increase of 4.31% as compared with that at the end of the previous year. Total deposits from customers amounted to RMB4,142.254 billion, representing an increase of 8.95% as compared with that at the end of the previous year.

The non-performing loans decreased and the allowance coverage ratio remained solid. As at 30 June 2017, the Group had total non-performing loans of RMB60.459 billion, representing a decrease of RMB662 million as compared with the end of the previous year. The non-performing loan ratio was 1.71%, down by 0.16 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 224.69%, representing an increase of 44.67 percentage points as compared with the end of the previous year.

3.2 Analysis of Income Statement

3.2.1 Financial highlights

From January to June 2017, the Group realised a profit before tax of RMB49.942 billion, representing a year-on-year increase of 9.77%. The effective income tax rate was 20.98%, representing a year-on-year decrease of 1.36 percentage points. The following table sets out the changes in major income/loss items of the Group for the first half of 2017.

	January to June 2017	January to June 2016 (in millions of RMB)	Changes
Net interest income	**70,896**	67,477	3,419
Net fee and commission income	**34,750**	37,779	(3,029)
Other net income	**6,984**	7,986	(1,002)
Operating expenses	**(30,322)**	(31,596)	1,274
Provision for insurance claims	**(120)**	(133)	13
Share of profits of associates and joint ventures	**402**	152	250
Impairment losses on assets	**(32,648)**	(36,170)	3,522
Profit before tax	**49,942**	45,495	4,447
Income tax	**(10,476)**	(10,163)	(313)
Net profit	**39,466**	35,332	4,134
Net profit attributable to the Bank's shareholders	**39,259**	35,231	4,028

3.2.2 Net operating income

From January to June 2017, the net operating income of the Group was RMB113.032 billion, representing a year-on-year decrease of 0.32%. The net interest income accounted for 62.72% of the total net operating income, representing a year-on-year increase of 3.21 percentage points; the net non-interest income accounted for 37.28% of the total net operating income, representing a year-on-year decrease of 3.21 percentage points.

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

	January to June 2017 (%)	January to June 2016 (%)	January to June 2015 (%)
Net interest income	**62.72**	59.51	63.76
Net fee and commission income	**30.74**	33.32	29.45
Other net income	**6.18**	7.04	6.66
Share of profits of associates and joint ventures	**0.36**	0.13	0.13
Total	**100.00**	100.00	100.00

3.2.3 Interest income

From January to June 2017, the Group recorded an interest income of RMB116.393 billion, representing a year-on-year increase of 6.92%, mainly due to the increase in 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

From January to June 2017, the interest income from loans and advances of the Group was RMB81.590 billion, representing a year-on-year increase of 6.97%.

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

	January to June 2017			January to June 2016		
	Average balance	**Interest income**	**Annualised average yield (%)**	Average balance	Interest income	Annualised average yield (%)
	(in millions of RMB, excluding percentages)					
Corporate loans	**1,651,597**	**32,451**	**3.96**	1,503,021	33,801	4.52
Retail loans	**1,613,404**	**47,163**	**5.89**	1,283,310	40,057	6.28
Discounted bills	**163,198**	**1,976**	**2.44**	159,370	2,418	3.05
Loans and advances	**3,428,199**	**81,590**	**4.80**	2,945,701	76,276	5.21

From January to June 2017, from the perspective of the tenor structure of loans and advances of the Company, the average balance of short-term loans was RMB1,433.976 billion, with the interest income amounting to RMB39.033 billion, and the annualised average yield reached 5.49%; the average balance of medium- to long-term loans was RMB1,738.923 billion, with the interest income amounting to RMB38.095 billion, and the annualised average yield reached 4.42%. The average yield of short-term loans was higher than that of medium- to long-term loans, which was attributable to the higher yield of credit card loans and micro-finance loans in short-term loans.

3.2.4 Interest expense

From January to June 2017, the interest expense of the Group was RMB45.497 billion, representing an increase of 9.95% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in the interest-bearing liabilities. Due to the increasing impact of the shift from time deposits to demand deposits in the market and the re-pricing of time deposits after interest rate cuts, the average cost ratio of interest-bearing liabilities decreased slightly as compared with the corresponding period of the previous year.

Interest expense on deposits from customers

From January to June 2017, the Group's interest expense on deposits from customers was RMB24.216 billion, up by 2.78% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in deposits from customers.

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

	January to June 2017			January to June 2016		
	Average balance	**Interest expense**	**Annualised average cost ratio (%)**	Average balance	Interest expense	Annualised average cost ratio (%)
	(in millions of RMB, excluding percentages)					
Deposits from corporate customers						
Demand	**1,470,672**	**5,124**	**0.70**	1,233,410	4,034	0.66
Time	**1,171,623**	**14,006**	**2.41**	1,100,738	13,835	2.53
Subtotal	**2,642,295**	**19,130**	**1.46**	2,334,148	17,869	1.54
Deposits from retail customers						
Demand	**969,894**	**1,749**	**0.36**	843,158	1,535	0.37
Time	**333,911**	**3,337**	**2.02**	347,848	4,157	2.40
Subtotal	**1,303,805**	**5,086**	**0.79**	1,191,006	5,692	0.96
Total deposits from customers	**3,946,100**	**24,216**	**1.24**	3,525,154	23,561	1.34

3.2.5 Net interest income

From January to June 2017, the Group's net interest income amounted to RMB70.896 billion, representing a year-on-year increase of 5.07%.

The following table sets out the average balances of assets and liabilities, interest income/interest expenses, and annualised average yields/cost ratios of the Group for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	January to June 2017			January to December 2016			January to June 2016		
	Average balance	**Interest income**	**Annualised average yield (%)**	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Annualised average yield (%)
	(in millions of RMB, except for percentages)								
Interest-earning assets									
Loans and advances	**3,428,199**	**81,590**	**4.80**	3,075,611	151,236	4.92	2,945,701	76,276	5.21
Investments	**1,414,121**	**24,653**	**3.52**	1,300,604	45,721	3.52	1,331,646	23,577	3.56
Balances with the Central Bank	**568,452**	**4,279**	**1.52**	557,347	8,170	1.47	564,214	4,059	1.45
Placements with banks and other financial institutions	**461,410**	**5,871**	**2.57**	451,820	10,354	2.29	416,937	4,945	2.39
Total	**5,872,182**	**116,393**	**4.00**	5,385,382	215,481	4.00	5,258,498	108,857	4.16

	Average balance	**Interest expense**	**Annualised average cost ratio (%)**	Average balance	Interest expense	Average cost ratio (%)	Average balance (restated)	Interest expense (restated)	Annualised average cost ratio (%) (restated)
	(in millions of RMB, except for percentages)								
Interest-bearing liabilities									
Deposits from customers	**3,946,100**	**24,216**	**1.24**	3,619,703	46,000	1.27	3,525,154	23,561	1.34
Placements from banks and other financial institutions	**867,224**	**11,172**	**2.60**	873,695	20,168	2.31	818,438	10,669	2.62
Bond payables	**323,450**	**5,983**	**3.73**	301,430	9,925	3.29	310,518	5,041	3.26
Borrowings from the Central Bank	**285,366**	**4,126**	**2.92**	177,449	4,793	2.70	207,057	2,109	2.05
Total	**5,422,140**	**45,497**	**1.69**	4,972,277	80,886	1.63	4,861,167	41,380	1.71
Net interest income	/	**70,896**	/	/	134,595	/	/	67,477	/
Net interest spread	/	/	**2.31**	/	/	2.37	/	/	2.45
Net interest margin	/	/	**2.43**	/	/	2.50	/	/	2.58

Note: In the 2016 Annual Report, the Group started to reclassify its liabilities on the repurchases of rediscounted bills and the bond repurchases made by the Central Bank in the open market from the "Amounts sold under repurchase agreements" to "Borrowings from the Central Bank", and the breakdown of "Interest expenses" was also reclassified accordingly. In the 2016 Interim Report, the breakdown of the relevant data and the relevant financial indicators were restated.

From January to June 2017, the net interest spread of the Group was 2.31%, down by 14 basis points as compared with the corresponding period of the previous year, which was mainly due to the impact of change from business tax to value-added tax. The annualised average yield of the interest-earning assets was 4.00%, while the annualised average cost ratio of interest-bearing liabilities was 1.69%, down by 16 basis points and 2 basis points respectively as compared with the corresponding period of the previous year.

From January to June 2017, the net interest margin of the Group was 2.43%, down by 15 basis points as compared with the corresponding period of the previous year.

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

	January to June 2017 compared to January to June 2016		
	Increase (decrease) due to		Net increase
	Volume	Interest rate	(decrease)
	(in millions of RMB)		
Assets			
Loans and advances	**29,543**	**(24,229)**	**5,314**
Investments	**2,282**	**(1,206)**	**1,076**
Balances with the Central Bank	**(591)**	**811**	**220**
Placements with banks and other financial institutions	**(594)**	**1,520**	**926**
Changes in interest income	**30,640**	**(23,104)**	**7,536**
Liabilities			
Deposits from customers	**8,231**	**(7,576)**	**655**
Placements from banks and other financial institutions	**893**	**(390)**	**503**
Bond payables	**(1,973)**	**2,915**	**942**
Borrowings from the Central Bank	**(1,605)**	**3,622**	**2,017**
Changes in interest expense	**5,546**	**(1,429)**	**4,117**
Changes in net interest income	**25,094**	**(21,675)**	**3,419**

The following table sets out the average balances of assets and liabilities, interest income/interest expenses and annualised average yields/cost ratios of the Group for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of daily balances.

	January to March 2017			April to June 2017		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
	(in millions of RMB, except for percentages)					
Interest-earning assets						
Loans and advances	3,374,096	40,016	4.81	3,481,710	41,574	4.79
Investments	1,372,798	11,709	3.46	1,454,990	12,944	3.57
Balances with the Central Bank	570,732	2,123	1.51	566,197	2,156	1.53
Placements with banks and other financial institutions	517,495	3,212	2.52	405,941	2,659	2.63
Total	5,835,121	57,060	3.96	5,908,838	59,333	4.03

	January to March 2017			April to June 2017		
	Average balance	Interest expense	Annualised average cost ratio (%)	Average balance	Interest expense	Annualised average cost ratio (%)
	(in millions of RMB, except for percentages)					
Interest-bearing liabilities						
Deposits from customers	3,932,874	11,989	1.24	3,959,181	12,227	1.24
Placements from banks and other financial institutions	893,115	5,621	2.55	841,619	5,551	2.65
Bond payables	318,421	2,837	3.61	328,424	3,146	3.84
Borrowings from the Central Bank	252,951	1,699	2.72	317,425	2,427	3.07
Total	5,397,361	22,146	1.66	5,446,649	23,351	1.72
Net interest income	/	34,914	/	/	35,982	/
Net interest spread	/	/	2.30	/	/	2.31
Net interest margin	/	/	2.43	/	/	2.44

In the second quarter of 2017, due to the impact of the increase in return on assets as a result of improved asset structure, the net interest spread of the Group was 2.31%, up by 1 basis point as compared with the first quarter of 2017. The annualised average yield of the interest-earning assets was 4.03%, up by 7 basis points as compared with the first quarter of 2017 while the annualised average cost ratio of interest-bearing liabilities was 1.72%, up by 6 basis points as compared with the first quarter of 2017.

In the second quarter of 2017, the net interest margin of the Group was 2.44%, up by 1 basis point as compared with the first quarter of 2017.

3.2.6 Net non-interest income

From January to June 2017, the Group recorded a net non-interest income of RMB42.136 billion, representing a decrease of 8.23% as compared with the corresponding period of the previous year. The components are as follows:

Net fee and commission income amounted to RMB34.750 billion, representing a decrease of 8.02% as compared with the corresponding period of the previous year. Among which, bank card fees increased by RMB1.714 billion or 35.72% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in UnionPay POS agency service income and other fee income from personal credit cards; remittance and settlement fees rose by RMB2.063 billion or 61.29% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in the income of e-payment; commissions on custody and other fiduciary activities decreased by RMB4.049 billion or 25.32% as compared with the corresponding period of the previous year. Among which, income from entrusted wealth management amounted to RMB6.239 billion from January to June 2017, down by 37.03% as compared with the corresponding period of the previous year; income from custody business amounted to RMB2.542 billion, down by 7.33% as compared with the corresponding period of the previous year.

Other net non-interest income amounted to RMB7.386 billion, representing a decrease of 9.24% as compared with the corresponding period of the previous year. Among which, investment income was RMB4.007 billion, decreased by 50.72% as compared with the corresponding period of the previous year, which was primarily attributable to the decrease in bills spread income and the spread of spot precious metal transaction; other net income amounted to RMB1.580 billion, increased by 34.93% as compared with the corresponding period of the previous year, which was primarily attributable to the increase in the income from operating leasing; the net gains/(losses) from fair value changes was RMB-208 million, representing an increase of RMB2.047 billion as compared with the corresponding period of the previous year, which was primarily attributable to the increase in spot precious metal positions and valuation of their relevant derivatives.

Among the business segments, the net non-interest income from wholesale finance amounted to RMB18.678 billion, representing a decrease of 17.86% over the corresponding period of the previous year and accounting for 44.33% of the Group's net non-interest income; the net non-interest income from retail finance amounted to RMB20.276 billion, representing an increase of 1.58% over the corresponding period of the previous year and accounting for 48.12% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB3.182 billion, representing a decrease of 1.12% over the corresponding period of the previous year and accounting for 7.55% of the Group's net non-interest income.

The following table sets forth, for the periods indicated, the principal components of the net non-interest income of the Group. For details of the net non-interest income of the Company, please refer to the analysis of net non-interest income in section 3.9.1 of this report.

	January to June 2017	January to June 2016
	(in millions of RMB)	
Fee and commission income	**37,526**	39,991
Bank card fees	**6,512**	4,798
Remittance and settlement fees	**5,429**	3,366
Agency services fees	**8,280**	9,676
Commissions from credit commitment and loan business	**2,271**	2,363
Commissions on custody and other fiduciary activities	**11,942**	15,991
Other	**3,092**	3,797
Less: fee and commission expense	**2,776**	2,212
Net fee and commission income	**34,750**	37,779
Other net non-interest income	**7,386**	8,138
Net losses from fair value changes	**(208)**	(2,255)
Net investment income	**4,007**	8,131
Exchange gain	**1,605**	939
Other net operating income	**1,580**	1,171
Share of profits of associates and joint ventures	**402**	152
Total net non-interest income	**42,136**	45,917

3.2.7 Operating expense

From January to June of 2017, the Group's operating expense amounted to RMB30.322 billion, representing a year-on-year decrease of 4.03%. The cost-to-income ratio was 25.88%, representing a year-on-year increase of 2.54 percentage points.

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

	January to June 2017	January to June 2016
	(in millions of RMB)	
Staff costs	**17,734**	16,359
Taxes and surcharges	**1,073**	5,133
Depreciation of fixed assets and investment properties	**2,440**	2,083
Rental expenses	**2,066**	2,002
Other general and administrative expenses	**7,009**	6,019
Total operating expenses	**30,322**	31,596

3.2.8 Impairment losses

From January to June 2017, impairment losses on assets of the Group were RMB32.648 billion, representing a year-on-year decrease of 9.74%.

The following table sets forth, for the periods indicated, the principal components of impairment losses on assets of the Group.

	January to June 2017	January to June 2016
	(in millions of RMB)	
Loans and advances to customers	**33,139**	35,207
Amounts receivable from banks and other financial institutions	**100**	(9)
Investments	**(960)**	752
Other assets	**369**	220
Total impairment losses	**32,648**	36,170

Impairment losses on loans were the largest component of impairment losses on assets. In the first half of 2017, impairment losses on loans were RMB33.139 billion, representing a decrease of 5.87% as compared with the corresponding period of the previous year. For details of the provision for impairment losses on loans, please refer to the section headed "Analysis of Loan Quality" in this chapter.

3.3 Analysis of Balance Sheet

3.3.1 Assets

As at 30 June 2017, the total assets of the Group amounted to RMB6,199.690 billion, representing an increase of 4.33% as compared with the end of the previous year.

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

	30 June 2017		31 December 2016	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Total loans and advances to customers	**3,539,938**	**57.10**	3,261,681	54.89
Provision for impairment losses on loans	**(135,844)**	**(2.19)**	(110,032)	(1.85)
Net loans and advances to customers	**3,404,094**	**54.91**	3,151,649	53.04
Investment securities and other financial assets	**1,571,099**	**25.34**	1,463,322	24.63
Cash, precious metals and balances with the Central Bank	**610,420**	**9.85**	600,510	10.11
Balances with banks and other financial institutions	**61,312**	**0.99**	103,013	1.73
Placements with banks and other financial institutions and financial assets held under resale agreement	**384,031**	**6.19**	478,950	8.06
Goodwill	**9,954**	**0.16**	9,954	0.17
Other assets (Note)	**158,780**	**2.56**	134,913	2.26
Total assets	**6,199,690**	**100.00**	5,942,311	100.00

Note: Including interest receivable, fixed assets, intangible assets, investment properties, deferred tax assets and other assets.

3.3.1.1 Loans and advances

As at 30 June 2017, total loans and advances of the Group amounted to RMB3,539.938 billion, representing an increase of 8.53% as compared with the end of the previous year; total loans and advances accounted for 57.10% of the total assets, representing an increase of 2.21 percentage points as compared with the end of the previous year. For details of the loans and advances of the Group, please refer to the section headed "Analysis of Loan Quality" in this chapter.

3.3.1.2 *Investment Securities and Other Financial Assets*

The Group's investment securities and other financial assets consist of listed and unlisted financial instruments denominated in RMB and foreign currencies.

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

	30 June 2017		31 December 2016	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Financial assets at fair value through profit or loss	**52,956**	**3.37**	55,972	3.82
Available-for-sale financial assets	**404,182**	**25.73**	389,138	26.59
Held-to-maturity investments	**516,094**	**32.85**	477,064	32.60
Debt securities classified as receivables	**582,370**	**37.07**	528,748	36.13
Interest in joint ventures and associates	**4,016**	**0.25**	3,712	0.27
Derivative financial assets	**11,481**	**0.73**	8,688	0.59
Total investment securities and other financial assets	**1,571,099**	**100.00**	1,463,322	100.00

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss was RMB52.956 billion as at 30 June 2017, decreased by 5.39% as compared with the end of last year. Such investments were made mainly to seize the opportunities for transactions in the bond market. As a result of the monetary policy and the deleverage policy, in the first half of 2017, the market value of bonds held for trading was affected to a certain extent. The Group, through strengthening market research, adopted a robust trading strategy that was aligned with market situations. Scaling down the duration and size for trading accounts in a proactive manner, the Group adopted interest rates derivatives for hedging purpose. The Group proactively conducted spread transactions of bonds and interest rate swaps while moderately reducing trading exposure. Therefore, the overall impact was controllable. For details, please refer to Note 17(a) to the financial report "Financial assets at fair value through profit or loss".

Available-for-sale financial assets

As at 30 June 2017, the value of available-for-sale financial assets of the Group was RMB404.182 billion, representing an increase of 3.87% as compared with that at the end of the previous year. This category of investments was made mainly for the purpose of improving operation performance. In the first half of 2017, in response to the market trend, the Group proactively took opportunities to increase its investments primarily in assets with high liquidity such as PRC government bonds, and flexibly adjusted the bond duration, thus optimising the structure of assets and liabilities allocation. For details, please refer to Note 17(b) to the financial report "Available-for-sale financial assets".

Held-to-maturity investments

As at 30 June 2017, the value of held-to-maturity investments of the Group was RMB516.094 billion, representing an increase of 8.18% as compared with that at the end of the previous year. This category of investments was held on a long-term basis for the strategic allocation of assets and liabilities of the Group, based on the requirements of interest rate risk management of bank accounts and liquidity management, while taking into account the benefits and risks. The bond investments were made mainly in the bonds issued by the PRC government, policy banks, etc.. In the first half of 2017, to facilitate the replacement of local government debts, and in consideration of the comprehensive operating requirements of the whole Bank, the increase in held-to-maturity investments primarily comprised of local government bonds. For details, please refer to Note 17(c) to the financial report "Held-to-maturity investments".

Debt securities classified as receivables

Debt securities classified as receivables mainly represent bond investments without active market prices and investments in non-standard debt securities held by the Group. As at 30 June 2017, the Group's debt securities classified as receivables amounted to RMB582.370 billion, representing an increase of 10.14% as compared with the end of the previous year, which was mainly attributable to an increase in the investment in non-standard debt securities. For details, please refer to Note 17(d) to the financial report "Debt securities classified as receivables" and Section 3.9.1 of this report for the analysis of proprietary funds invested in non-standard creditor's assets.

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

	30 June 2017	31 December 2016
	(in millions of RMB)	
Official authorities (Note)	**483,713**	428,932
Policy banks	**243,019**	264,317
Commercial banks and other financial institutions	**140,716**	139,628
Others (Note)	**77,248**	68,291
Total bond investment	**944,696**	901,168

Note: "Official authorities" include the central and local governments. "Others" mainly refer to enterprises.

Interests in joint ventures and associates

As at 30 June 2017, the Group had interests of RMB3.998 billion in joint ventures, representing an increase of RMB368 million or 10.14% as compared with that at the end of the previous year. The Group had interests in associates of RMB18 million. As at the end of the reporting period, the Group's balance of provision for impairment losses on interests in joint ventures and associates was zero. For details, please refer to Note 18 to the financial report "Interests in joint ventures" and Note 19 "Interests in associates".

Derivative financial instruments

As at 30 June 2017, the major categories and amount of derivative financial instruments held by the Group are indicated as in the following table. For details, please refer to Note 37(f) to the financial report "Risk Management – Use of derivatives".

	30 June 2017			31 December 2016		
	Notional amount	Fair value Assets	Fair value Liabilities	Notional amount	Fair value Assets	Fair value Liabilities
	(in millions of RMB)					
Interest rate derivatives	**1,127,860**	**1,772**	**(1,734)**	1,410,276	599	(450)
Currency derivatives	**1,342,385**	**9,309**	**(13,942)**	1,257,163	8,022	(10,634)
Other derivatives	**129,955**	**400**	**(401)**	335	67	(68)
Total	**2,600,200**	**11,481**	**(16,077)**	2,667,774	8,688	(11,152)

In the first half of 2017, RMB to USD central parity rate regime carried out orderly operation, the level of standardisation, transparency and marketisation of the exchange rate regime were continuously enhanced, with the gradual stabilisation of RMB exchange rate, the dual-direction fluctuations in RMB exchange rate became less evident, the demand of hedging exchange rate risks decreased, leading to the decreasing transaction volume of foreign exchange settlements for customers. The Group fully capitalised on the advantages of strong capabilities in transactions, and grasped the opportunities of RMB swap transactions to aggressively increase the effort of trading, so that the profits from foreign exchange trading achieved growth.

3.3.1.3 Goodwill

As at 30 June 2017, 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.

3.3.2 Liabilities

As at 30 June 2017, the total liabilities of the Group amounted to RMB5,777.866 billion, representing an increase of 4.31% as compared with the end of the previous year.

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

	30 June 2017		31 December 2016	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Deposits from customers	**4,142,254**	**71.69**	3,802,049	68.64
Deposits from banks and other financial institutions	**399,902**	**6.92**	555,607	10.03
Borrowings from the Central Bank	**351,542**	**6.08**	330,108	5.96
Placements from banks and other financial institutions	**212,457**	**3.68**	248,876	4.49
Financial liabilities at fair value through profit or loss	**23,995**	**0.42**	23,576	0.43
Derivative financial liabilities	**16,077**	**0.28**	11,152	0.20
Amounts sold under repurchase agreements	**158,357**	**2.74**	162,942	2.94
Bond payables	**346,902**	**6.00**	275,082	4.97
Other liabilities (Note)	**126,380**	**2.19**	129,557	2.34
Total liabilities	**5,777,866**	**100.00**	5,538,949	100.00

Note: Including salaries and welfare payable, taxes payable, interest payable, deferred income tax liabilities and other liabilities.

Deposits from customers

As at 30 June 2017, total deposits from customers of the Group amounted to RMB4,142.254 billion, representing an increase of 8.95% as compared with the end of the previous year. Deposits from customers accounted for 71.69% 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.

	30 June 2017		31 December 2016	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Deposits from corporate customers				
Demand	**1,543,497**	**37.26**	1,441,225	37.91
Time	**1,222,528**	**29.52**	1,076,266	28.30
Subtotal	**2,766,025**	**66.78**	2,517,491	66.21
Deposits from retail customers				
Demand	**1,042,025**	**25.15**	951,615	25.03
Time	**334,204**	**8.07**	332,943	8.76
Subtotal	**1,376,229**	**33.22**	1,284,558	33.79
Total deposits from customers	**4,142,254**	**100.00**	3,802,049	100.00

As at 30 June 2017, the percentage of demand deposits to total deposits from customers of the Group was 62.41%, representing a decrease of 0.53 percentage point as compared with the end of the previous year. Among which, the corporate demand deposits accounted for 55.80% of the corporate deposits, representing a decrease of 1.45 percentage points as compared with that at the end of the previous year, and the retail demand deposits accounted for 75.72% of the retail deposits, representing an increase of 1.64 percentage points as compared with that at the end of the previous year.

3.3.3 Shareholders' equity

As at 30 June 2017, the shareholders' equity of the Group was RMB421.824 billion, representing an increase of 4.58% as compared with the end of the previous year. Equity attributable to shareholders of the Bank was RMB419.377 billion, representing an increase of 4.23% as compared with the end of the previous year. Among which, retained profits amounted to RMB219.463 billion, representing an increase of 10.22% as compared with the end of the previous year. Other comprehensive income amounted to RMB-618 million, mainly due to a decrease of valuation in the bond market.

3.4 Analysis of Loan Quality

During the reporting period, the Group saw a steady growth in the volume of credit assets and a decrease in non-performing loan ratio. The allowance coverage ratio remained solid, and our risk loss endurance capability improved further. As at 30 June 2017, total loans and advances to customers of the Group were RMB3,539.938 billion, representing an increase of 8.53% as compared with the end of the previous year; the non-performing loan ratio was 1.71%, down by 0.16 percentage point from the end of the previous year; the non-performing loan allowance coverage ratio was 224.69%, representing an increase of 44.67 percentage points as compared with the end of the previous year; the loan allowance ratio was 3.84%, representing an increase of 0.47 percentage point as compared with the end of the previous year.

3.4.1 Distribution of loans by 5-tier loan classification

The following table sets forth the 5-tier loan classification of the Group as at the dates indicated.

	30 June 2017		31 December 2016	
	Amount	**Percentage of the total (%)**	Amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Normal	**3,418,740**	**96.57**	3,132,460	96.04
Special mention	**60,739**	**1.72**	68,100	2.09
Substandard	**21,544**	**0.62**	24,309	0.74
Doubtful	**23,531**	**0.66**	22,296	0.68
Loss	**15,384**	**0.43**	14,516	0.45
Total loans and advances to customers	**3,539,938**	**100.00**	3,261,681	100.00
Total non-performing loans	**60,459**	**1.71**	61,121	1.87

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. As at the end of the reporting period, the total non-performing loans of the Group amounted to RMB60.459 billion, representing a decrease of 1.08% as compared with the end of the previous year. In particular, the decrease in non-performing loans was mainly due to the decrease in substandard loans. As at the end of the period, the proportion of substandard loans decreased by 0.12 percentage point to 0.62%. As at the end of the period, the special mention loans amounted to RMB60.739 billion, representing a decrease of 10.81% as compared with that at the end of the previous year, and accounting for 1.72% of the total loans, representing a decrease of 0.37 percentage point as compared with that at the end of the previous year.

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

	30 June 2017				31 December 2016			
	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio(1)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio(1)
	(in millions of RMB, except for percentages)							
Corporate Loans	**1,684,099**	**47.57**	**45,672**	**2.71**	1,566,570	48.03	45,719	2.92
Working capital loans	**875,902**	**24.74**	**30,788**	**3.52**	794,577	24.36	29,064	3.66
Fixed asset loans	**387,054**	**10.93**	**5,431**	**1.40**	363,802	11.15	5,304	1.46
Trade finance	**196,146**	**5.54**	**2,628**	**1.34**	192,801	5.91	3,433	1.78
Others(2)	**224,997**	**6.36**	**6,825**	**3.03**	215,390	6.61	7,918	3.68
Discounted Bills(3)	**153,951**	**4.35**	**–**	**–**	154,517	4.74	–	–
Retail loans	**1,701,888**	**48.08**	**14,787**	**0.87**	1,540,594	47.23	15,402	1.00
Micro-finance loans	**297,683**	**8.41**	**4,269**	**1.43**	283,502	8.69	4,629	1.63
Residential mortgage loans	**807,665**	**22.82**	**2,713**	**0.34**	728,328	22.32	3,023	0.42
Credit card loans	**456,219**	**12.89**	**5,764**	**1.26**	409,198	12.55	5,717	1.40
Others(4)	**140,321**	**3.96**	**2,041**	**1.45**	119,566	3.67	2,033	1.70
Total loans and advances to customers	**3,539,938**	**100.00**	**60,459**	**1.71**	3,261,681	100.00	61,121	1.87

Notes: (1) Represents the percentage of the non-performing loan 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 discounted bills to corporate loans for accounting purposes once overdue.

(4) The "Others" category consists primarily of general consumption loans, commercial housing loans, automobile loans, house decoration loans, education loans and other personal loans secured by monetary assets.

In the first half of 2017, the Group developed its retail and corporate loan business in a balanced manner and constantly optimised the loan structure. With respect to retail loans, the Group increased the granting of residential mortgage loans for self-occupation housing and steadily developed the granting of micro-finance loans. As a result, the percentage of retail loans increased by 0.85 percentage point to 48.08%. As at the end of the reporting period, the non-performing retail loan ratio was 0.87%, down by 0.13 percentage point as compared with the end of the previous year. With respect to corporate loans, the proportion of working capital loans increased slightly, while the proportions of fixed asset loans and trade finance loans both decreased, the non-performing loan ratio of each type of loan showed a decreasing trend, and the asset quality was improved. As at the end of the reporting period, the non-performing corporate loan ratio of the Group was 2.71%.

3.4.3 Distribution of loans and non-performing loans by industry

	30 June 2017				31 December 2016			
	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio[(1)]	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio[(1)]
	(in millions of RMB, except for percentages)							
Corporate Loans	**1,684,099**	**47.57**	**45,672**	**2.71**	1,566,570	48.03	45,719	2.92
Manufacturing	**291,921**	**8.25**	**18,561**	**6.36**	297,442	9.12	18,970	6.38
Wholesale and retail	**267,114**	**7.55**	**11,479**	**4.30**	228,751	7.01	10,589	4.63
Property development	**243,331**	**6.87**	**2,605**	**1.07**	227,564	6.98	2,292	1.01
Transportation, storage and postal services	**207,506**	**5.86**	**1,615**	**0.78**	193,829	5.94	1,587	0.82
Construction	**88,720**	**2.51**	**1,914**	**2.16**	84,673	2.60	1,671	1.97
Production and supply of electric power, heat, gas and water	**124,614**	**3.52**	**1,279**	**1.03**	108,669	3.33	1,088	1.00
Mining	**47,414**	**1.34**	**6,694**	**14.12**	49,479	1.52	8,163	16.50
Leasing and commercial services	**128,670**	**3.63**	**221**	**0.17**	102,469	3.14	129	0.13
Water conservancy, environment and public utilities	**40,426**	**1.14**	**242**	**0.60**	35,243	1.08	216	0.61
Information transmission, software and IT service	**68,180**	**1.93**	**285**	**0.42**	77,492	2.38	225	0.29
Others[(2)]	**176,203**	**4.97**	**777**	**0.44**	160,959	4.93	789	0.49
Discounted Bills	**153,951**	**4.35**	**–**	**–**	154,517	4.74	–	–
Retail loans	**1,701,888**	**48.08**	**14,787**	**0.87**	1,540,594	47.23	15,402	1.00
Total loans and advances to customers	**3,539,938**	**100.00**	**60,459**	**1.71**	3,261,681	100.00	61,121	1.87

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

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

In the first half of 2017, the Group continued to support the development of the real economy, constantly optimised its risk asset portfolio, adhered to the principles of "four qualities", i.e. granting loans to quality industries, quality regions, quality projects and quality customers, and make explorations in new industries and new markets such as national strategic emerging industries, modern service industries, advanced manufacturing industries and cultural industries. The Group gave priority to strategic customers at the Head Office and its branches in credit resource allocation, increased its efforts in asset business exploration for quality and potential customers, reduced and withdrew loans granted to customers with high risks such as customers associated with overcapacity and high debt. The Group also optimised the allocation of credit resources so as to maintain an overall balance among risks, revenues and costs.

During the reporting period, the non-performing loan and non-performing loan ratio of the Group both decreased, the non-performing loan were reduced by RMB662 million as compared with that at the end of the previous year, and the non-performing loan ratio decreased by 0.16 percentage point as compared with that at the end of the previous year. Among which, non-performing loan ratios related to mining and wholesale and retail decreased by 2.38 percentage points and 0.33 percentage point respectively, and the asset quality was further improved.

3.4.4 Distribution of loans and non-performing loans by region

	30 June 2017				31 December 2016			
	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio(Note)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio(Note)
	(in millions of RMB, except for percentages)							
Head Office	**563,892**	**15.93**	**5,956**	**1.06**	499,102	15.30	5,993	1.20
Yangtze River Delta	**740,393**	**20.92**	**10,591**	**1.43**	674,209	20.67	11,134	1.65
Bohai Rim	**431,073**	**12.18**	**7,862**	**1.82**	398,961	12.23	6,427	1.61
Pearl River Delta and West Side of Taiwan Strait	**601,129**	**16.98**	**8,497**	**1.41**	561,539	17.21	7,082	1.26
North-eastern China	**145,497**	**4.11**	**3,675**	**2.53**	137,171	4.21	2,987	2.18
Central China	**337,506**	**9.53**	**7,328**	**2.17**	311,713	9.56	10,128	3.25
Western China	**350,584**	**9.90**	**14,701**	**4.19**	332,342	10.19	15,999	4.81
Overseas	**100,268**	**2.83**	**169**	**0.17**	99,149	3.04	–	–
Subsidiaries	**269,596**	**7.62**	**1,680**	**0.62**	247,495	7.59	1,371	0.55
Total loans and advances to customers	**3,539,938**	**100.00**	**60,459**	**1.71**	3,261,681	100.00	61,121	1.87

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

Given the differences in economic patterns and customer bases of various regions, in the first half of 2017, the Group implemented differentiated supervisory management by category for branches and sub-branches in different regions. For the risk concentrated regions, the Group selectively raised the credit access standard and dynamically adjusted the credit authorisation so as to prevent the occurrence of regional systematic risks. As at the end of the reporting period, the percentages of the balances of loans extended to Yangtze River Delta and Head Office recorded a relatively large increase, while the percentages of the balance of loans extended to Western China, the Pearl River Delta and West Side of Taiwan Strait and overseas recorded a relatively large decrease.

As at 30 June 2017, the regions where the Company incurred a large volume of non-performing loans are Western China, Yangtze River Delta and Pearl River Delta and West Side of Taiwan Strait, where the non-performing loan ratios of the Company decreased by 0.62 percentage point, decreased by 0.22 percentage point and increased by 0.15 percentage point, respectively as compared with the end of the previous year. During the reporting period, increase in non-performing loans of the Group was related primarily to Bohai Rim and Pearl River Delta and West Side of Taiwan Strait. Due to active adjustment to credit structure by the Group, the percentage of the balance of loans granted to Bohai Rim and Pearl River Delta and West Side of Taiwan Strait were reduced by 0.05 and 0.23 percentage point respectively during the reporting period.

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

	30 June 2017				31 December 2016			
	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (%)(Note)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (%)(Note)
	(in millions of RMB, except for percentages)							
Credit loans	**985,062**	**27.83**	**9,273**	**0.94**	850,482	26.07	9,223	1.08
Guaranteed loans	**442,604**	**12.50**	**24,122**	**5.45**	430,410	13.20	23,009	5.35
Collateralised loans	**1,539,921**	**43.50**	**24,895**	**1.62**	1,428,313	43.79	22,024	1.54
Pledged loans	**418,400**	**11.82**	**2,169**	**0.52**	397,959	12.20	6,865	1.73
Discounted bills	**153,951**	**4.35**	**–**	**–**	154,517	4.74	–	–
Total loans and advances to customers	**3,539,938**	**100.00**	**60,459**	**1.71**	3,261,681	100.00	61,121	1.87

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

As at the end of the reporting period, collateralised and pledged loans increased by 7.23% as compared with the end of the previous year. Guaranteed loans increased by 2.83% as compared with the end of the previous year while the credit loans increased by 15.82% as compared with the end of the previous year, which was mainly due to the increase in credit card loans.

3.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan amount as at 30 June 2017 (in millions of RMB)	Percentage of net capital (under the advanced approach) (%)	Percentage of total loans (%)
A	Wholesale and retail	**12,050**	**2.53**	**0.34**
B	Transportation, storage and postal services	**9,800**	**2.06**	**0.28**
C	Wholesale and retail	**8,096**	**1.70**	**0.23**
D	Transportation, storage and postal services	**7,445**	**1.56**	**0.21**
E	Production and supply of electric power, heating power, gas and water	**6,032**	**1.26**	**0.17**
F	Property development	**5,592**	**1.17**	**0.16**
G	Wholesale and retail	**4,927**	**1.03**	**0.14**
H	Transportation, storage and postal services	**4,767**	**1.00**	**0.13**
I	Transportation, storage and postal services	**4,704**	**0.99**	**0.13**
J	Manufacturing	**4,525**	**0.95**	**0.13**
Total		**67,938**	**14.25**	**1.92**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB12.050 billion, representing 2.53% of the Group's net capital under the advanced approach. The loan balance of the top ten single borrowers totalled RMB67.938 billion, representing 14.25% of the Group's net capital under the advanced approach, 14.11% of the Group's net capital under the weighted approach, and 1.92% of the Group's total loan balance, respectively.

3.4.7 Distribution of loans by overdue term

	30 June 2017		31 December 2016	
	Loan amount	**Percentage of the total (%)**	Loan amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Overdue within 3 months	**23,125**	**0.65**	22,006	0.68
Overdue from 3 months up to 1 year	**18,020**	**0.51**	24,280	0.74
Overdue from 1 year up to 3 years	**28,592**	**0.81**	21,580	0.66
Overdue more than 3 years	**1,850**	**0.05**	2,013	0.06
Total overdue loans	**71,587**	**2.02**	69,879	2.14
Total loans and advances to customers	**3,539,938**	**100.00**	3,261,681	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB71.587 billion, up by RMB1.708 billion from the end of the previous year and accounting for 2.02% of its total loans, representing a decrease of 0.12 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 47.63%, guaranteed loans accounted for 31.34%, while credit loans accounted for 21.03% (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 1.25.

3.4.8 Restructured loans

	30 June 2017		31 December 2016	
	Loan amount	**Percentage of the total (%)**	Loan amount	Percentage of the total (%)
	(in millions of RMB, except for percentages)			
Restructured loans (Note)	**18,297**	**0.52**	16,671	0.51
Of which: restructured loans overdue more than 90 days	**10,316**	**0.29**	8,605	0.26

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 0.52%, representing an increase of 0.01 percentage point as compared with the end of the previous year.

3.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the balance of repossessed assets of the Group amounted to RMB1.548 billion. After deduction of allowances for impairment losses of RMB690 million, the net repossessed assets amounted to RMB858 million.

3.4.10 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 were 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 Group would determine the allowances for impairment losses on a portfolio basis.

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

	In the first half of 2017	2016
	(in millions of RMB)	
Balance at the beginning of the period	**110,032**	84,842
Charge for the period	**36,413**	67,188
Release for the period	**(3,274)**	(2,628)
Transfer into/out for the period	**23**	(5,700)
Unwinding of discount on impaired loans(Note)	**(446)**	(1,001)
Recovery of loans and advances to customers previously written off	**3,083**	2,893
Write-offs	**(9,836)**	(35,942)
Foreign exchange rate movements	**(151)**	380
Balance at the end of the period	**135,844**	110,032

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 continues 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 RMB135.844 billion, representing an increase of RMB25.812 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 224.69%, representing an increase of 44.67 percentage points as compared with the end of the previous year; the loan allowance ratio was 3.84%, representing an increase of 0.47 percentage point as compared with the end of the previous year.

3.5 Analysis of Capital Adequacy Ratio

As at 30 June 2017, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced approach were 14.59% and 12.42%, respectively, representing an increase of 2.74 percentage points and 2.44 percentage points respectively as compared with those under the weighted approach.

The Group	**At the end of the reporting period 30 June 2017**	At the end of the previous year 31 December 2016	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the advanced approach(1)			
1. Net core Tier 1 capital	**405,543**	388,762	4.32
2. Net Tier 1 capital	**405,562**	388,780	4.32
3. Net capital	**476,723**	449,116	6.15
4. Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**3,233,878**	3,209,980	0.74
Of which: Credit risk weighted assets	**2,838,984**	2,813,611	0.90
Market risk weighted assets	**36,598**	38,073	(3.87)
Operational risk weighted assets	**358,296**	358,296	–
5. Risk-weighted assets (having taken into consideration the floor requirements during the parallel run period)	**3,266,377**	3,368,990	(3.05)
6. Core Tier 1 capital adequacy ratio	**12.42%**	11.54%	Increased by 0.88 percentage point
7. Tier 1 capital adequacy ratio	**12.42%**	11.54%	Increased by 0.88 percentage point
8. Capital adequacy ratio	**14.59%**	13.33%	Increased by 1.26 percentage points
Information on leverage ratio(2)			
9. Adjusted balance of on- and off-balance sheet assets	**6,958,729**	6,758,093	2.97
10. Leverage ratio	**5.83%**	5.75%	Increased by 0.08 percentage point

Note 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 and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Company shall include all the domestic and overseas branches and sub-branches of China Merchants Bank. As at 30 June 2017, the Group's subsidiaries for calculating its capital adequacy ratio include Wing Lung Bank, CMB International Capital, CMB Financial Leasing and China Merchants Fund. During the transition 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. 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 transition period. 2017 is the third year of implementation of the capital rules during the transition period.

Note 2: Since 2015, the leverage ratio has been calculated based on the "Measures for Management of the Leverage Ratio of Commercial Banks (Revised)" issued by the CBRC on 12 February 2015. As at the end of the first quarter of 2017, the end of 2016 and the end of the third quarter of 2016, the leverage ratios of the Group were 6.01%, 5.75% and 5.99%, respectively.

The capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the advanced approach were 14.36% and 12.08%, respectively, representing an increase of 2.99 percentage points and 2.63 percentage points respectively as compared with those under the weighted approach.

The Company	**At the end of the reporting period 30 June 2017**	At the end of the previous year 31 December 2016	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the advanced approach			
1. Net core Tier 1 capital	**351,115**	339,976	3.28
2. Net Tier 1 capital	**351,115**	339,976	3.28
3. Net capital	**417,263**	397,649	4.93
4. Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**2,885,116**	2,887,494	(0.08)
Of which: Credit risk weighted assets	**2,516,334**	2,516,838	(0.02)
Market risk weighted assets	**30,384**	32,258	(5.81)
Operational risk weighted assets	**338,398**	338,398	–
5. Risk-weighted assets (having taken into consideration the floor requirements during the parallel run period)	**2,906,119**	3,061,019	(5.06)
6. Core Tier 1 capital adequacy ratio	**12.08%**	11.11%	Increased by 0.97 percentage point
7. Tier 1 capital adequacy ratio	**12.08%**	11.11%	Increased by 0.97 percentage point
8. Capital adequacy ratio	**14.36%**	12.99%	Increased by 1.37 percentage points

As at 30 June 2017, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the weighted approach were 11.85% and 9.98% respectively, representing a decrease of 0.15 percentage point and 0.11 percentage point, respectively as compared with those at the end of the previous year.

The Group	**At the end of the reporting period 30 June 2017**	At the end of the previous year 31 December 2016	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the weighted approach(Note)			
1. Net core Tier 1 capital	**405,543**	388,762	4.32
2. Net Tier 1 capital	**405,562**	388,780	4.32
3. Net capital	**481,588**	462,493	4.13
4. Risk-weighted assets	**4,063,482**	3,852,894	5.47
5. Core Tier 1 capital adequacy ratio	**9.98%**	10.09%	Decreased by 0.11 percentage point
6. Tier 1 capital adequacy ratio	**9.98%**	10.09%	Decreased by 0.11 percentage point
7. Capital adequacy ratio	**11.85%**	12.00%	Decreased by 0.15 percentage point

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

The capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 11.37% and 9.45%, respectively, representing a decrease of 0.22 percentage point and 0.18 percentage point respectively as compared with the end of the previous year.

The Company	At the end of the reporting period 30 June 2017	At the end of the previous year 31 December 2016	Increase/decrease at the end of the reporting period as compared with the end of the previous year (%)
	(in millions of RMB, except for percentages)		
Capital adequacy ratios under the weighted approach			
1. Net core Tier 1 capital	**351,115**	339,976	3.28
2. Net Tier 1 capital	**351,115**	339,976	3.28
3. Net capital	**422,129**	408,962	3.22
4. Risk-weighted assets	**3,713,556**	3,529,142	5.23
5. Core Tier 1 capital adequacy ratio	**9.45%**	9.63%	Decreased by 0.18 percentage point
6. Tier 1 capital adequacy ratio	**9.45%**	9.63%	Decreased by 0.18 percentage point
7. Capital adequacy ratio	**11.37%**	11.59%	Decreased by 0.22 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 IRB approach	Financial institution	853,830	853,830
	Corporate	1,754,297	1,754,297
	Retail	2,148,841	2,148,841
	Of which: Residential mortgage exposures	858,723	858,723
	Qualified revolving retail	894,007	894,007
	Other retail	396,111	396,111
Portion not covered by the IRB approach	On-balance sheet	2,080,676	2,480,561
	Off-balance sheet	126,968	137,969
	Counterparty	34,060	35,613

Market risk capital measurement

The Group uses mixed approaches to calculate its market risk capital requirements. Specifically, it uses the internal model approach to calculate the general market risk capital of the Head Office in Mainland China, and uses the standardised approach to calculate the specific market risk capital of the Head Office in Mainland China as well as the general market risk capital and specific market risk capital of overseas institutions and affiliated companies. As at the end of the reporting period, the market risk capital of the Group was RMB2.928 billion, and its risk-weighted assets were RMB36.598 billion. Of which, the general market risk capital calculated under the internal model approach was RMB1.741 billion, and the market risk capital calculated under the standardised approach was RMB1.187 billion.

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

Unit: RMB million

No.	Item	Distressed risk value during the reporting period	General risk value during the reporting period
1	Average value	261	263
2	Maximum value	619	398
3	Minimum value	93	104
4	Value at the end of the period	313	260

3.6 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 wholesale finance and retail finance. The following table sets out the operating results of the business segments of the Group for the periods indicated.

Unit: RMB million

	January to June 2017		January to June 2016	
	Net operating income	**Profit before tax**	Net operating income	Profit before tax (restated)[note]
Wholesale finance	**53,572**	**20,889**	55,759	15,137
Retail finance	**56,150**	**27,682**	53,219	27,416
Other businesses	**3,310**	**1,371**	4,416	2,942
Total	**113,032**	**49,942**	113,394	45,495

Note: Since 2017, the Group has refined the assessment management for the impairment losses on assets at the Head Office level, and allocated them to the corresponding business lines according to the business nature. The figures for the corresponding period of 2016 have been adjusted accordingly.

During the reporting period, the net operating income from retail finance of the Group amounted to RMB56.150 billion, representing a year-on-year increase of 5.51%, and accounted for 49.68% of the net operating income of the Group, up by 2.75 percentage points year-on-year. The profit before tax from retail finance amounted to RMB27.682 billion, accounting for 56.99% of the total profit before tax of business lines. The cost-to-income ratio of retail finance business was 30.55%, representing a year-on-year increase of 1.23 percentage points.

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 30 June 2017		Total liabilities 30 June 2017		Total profit before tax January to June 2017	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
	(in millions of RMB, except for percentages)					
Head Office	**2,536,767**	**41**	**2,225,112**	**38**	**2,703**	**5**
Yangtze River Delta	**858,335**	**14**	**848,840**	**15**	**12,822**	**26**
Bohai Rim	**528,014**	**9**	**522,047**	**9**	**8,360**	**17**
Pearl River Delta and West Side of Taiwan Strait	**707,849**	**11**	**700,055**	**12**	**10,733**	**21**
North-eastern China	**173,525**	**3**	**172,832**	**3**	**957**	**2**
Central China	**385,135**	**6**	**381,966**	**7**	**4,328**	**9**
Western China	**389,514**	**6**	**386,274**	**7**	**4,452**	**9**
Overseas	**187,953**	**3**	**185,866**	**3**	**1,229**	**2**
Subsidiaries	**432,598**	**7**	**354,874**	**6**	**4,358**	**9**
Total	**6,199,690**	**100**	**5,777,866**	**100**	**49,942**	**100**

	Total assets 31 December 2016		Total liabilities 31 December 2016		Total profit before tax January to June 2016	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
	(in millions of RMB, except for percentages)					
Head Office	2,634,760	44	2,313,672	42	14,933	33
Yangtze River Delta	768,653	13	760,973	14	8,402	18
Bohai Rim	465,320	8	461,735	8	5,770	13
Pearl River Delta and West Side of Taiwan Strait	634,092	11	626,656	11	7,207	16
North-eastern China	157,710	3	156,670	3	1,628	3
Central China	353,771	6	354,073	6	1,756	4
Western China	368,485	6	373,028	7	1,261	3
Overseas	177,271	3	173,987	3	929	2
Subsidiaries	382,249	6	318,155	6	3,609	8
Total	5,942,311	100	5,538,949	100	45,495	100

3.7 Others

3.7.1 Balance of off-balance sheet items that may have a material effect on the financial positions and operating results and the related 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 June 2017, the balance of credit commitments was RMB1,310.608 billion. For details of the contingent liabilities and commitments, please refer to Note 35 to the financial report "Contingent liabilities and commitments" in this report.

3.7.2 Outstanding overdue debts

As at the end of June 2017, the Group did not have any outstanding overdue debts.

The contents and data in section 3.8 and below are analysed from the Company's perspective.

3.8 Analysis on Progress of Strategic Transformation

In the first half of 2017, facing the external situation of deleveraging and financial regulation tightening, the Company adhered to the direction of strategic transformation, strengthened its efforts on reform and application of technologies and seized business opportunities, as a result, our overall operation continued to improve, and achieved balanced development in terms of efficiency, quality and scale.

Continue to adhere to the "Light-operation Bank" strategy

1. "Light" capital: As at the end of the reporting period, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the advanced approach were 14.36% and 12.08%, respectively, representing an increase of 2.99 percentage points and 2.63 percentage points, respectively, as compared with those under the weighted approach, indicating an effective saving in capital. The risk adjusted return on capital (RAROC) before tax under the advanced approach was 29.58%, which was significantly higher than the capital cost.

2. "Light" assets: As at the end of the reporting period, the total retail loans of the Company increased by 10.63% as compared with the end of the previous year, which was higher than the growth rate of our total loans; the total retail loans accounted for 51.43% of our total loans, representing an increase of 0.98 percentage point as compared with the end of the previous year. Among them, the balance of residential mortgages and credit card loans increased by RMB79.597 billion and RMB47.072 billion, respectively, as compared with the end of the previous year, accounting for 47.55% and 27.11% of the total retail loans, respectively. In the first half of 2017, the Company reduced or withdrew risky corporate assets of RMB16.171 billion; the balance of loans for traditional mining industry decreased by 1.46% and its proportion was 0.14 percentage point lower from the end of the previous year; the balance of loans for the cultural, sports, entertainment and other emerging industries increased by 33.82%, as compared with the end of the previous year; as regards to the exposure of corporate loans, the exposure of corporate loans to customers with a high credit rating accounted for 65.78% of the total, representing an increase of 5.81 percentage points, as compared with the end of the previous year.

3. "Light" liabilities: During the reporting period, the Company further enhanced the refined management of debt cost, and compressed high-cost negotiated deposits by RMB26.440 billion, with yield to maturity of negotiated deposits at 5.66% as at the end of the period. As at the end of the period, the balance of demand deposits was RMB2,513.879 billion, up by 7.83% as compared with the end of the previous year. The proportion of demand deposits amounted to 63.59% and maintained at a higher level. Through our efforts, despite the rising interest rates in the market during the first half of the year, our annualised average cost rate on interest-bearing liabilities during the reporting period only increased by 6 basis points, as compared with the overall level of the previous year.

4. "Light" income structure: Due to the impact of factors including change from business tax to value-added tax and more stringent regulatory policies, our net non-interest income declined, but its proportion remained at a higher level. The proportion of net non-interest income in our net operating income was 35.29% for the current period. Meanwhile, the proportion of net operating income from retail finance in our net operating income was 51.40%, up by 3.02 percentage points as compared with the corresponding period of the previous year.

5. "Light" operation: During the reporting period, the monthly active users of our mobile application "CMB APP" and "CMB Life" both exceeded 20 million; the total number of corporate online banking customers and amounts of corporate online banking transactions increased by 11.39% and 88.05%, respectively, as compared with the corresponding period of the previous year; our "Zhao Ying Tong (招贏通)" transaction platform for industry peers secured 1,108 financial institutions, with an online trading replacement ratio of nearly 50%. For the details on distribution channels, please refer to the section headed "Distribution Channels" in this chapter. During the reporting period, the Company's cost-to-income ratio was 25.27%.

Continue to consolidate the strategic positioning of "One Body with Two Wings"

1. *"One Body" remained robust.*

Profit before tax from retail finance amounted to RMB26.911 billion, accounting for 57.17% of the total profit before tax of business lines; the net operating income from retail finance amounted to RMB54.750 billion, accounting for 51.40% of the net operating income of the Company; the cost-to-income ratio of retail finance was 30.29%; net non-interest income from retail finance rose by 1.18% year-on-year, accounting for 36.47% of net operating income from retail finance. We continued to consolidate the retail customer base and achieved further increase in the number of private banking, Diamond, Sunflower, gold card, effective mass customers and active credit-card users, in particular, the addition of 585,200 "customers at gold card and Sunflower level and above (雙金客戶)" became our biggest value contributor. The private banking business grew steadily, with the average total assets under management per customer of RMB28.0316 million. The balance of total assets under management (AUM) from retail customers increased by RMB367.8 billion as compared with the end of the previous year. Demand deposits from retail banking increased by RMB87.132 billion, accounting for 78.50% of the Company's total retail deposits. Total amounts of retail loans accounted for 51.43% of the Company's total loans.

2. *"Two Wings" both delivered good results.*

As for **corporate finance**, the Company has gradually enhanced its operation with core customers and significantly improved the efficiency in expanding the basic client base. During the reporting period, the Company newly developed 169,000 corporate depositors, 126,000 new customers using its cash management service, with 256 new effective asset core customers in the supply chain and 1,807 new effective asset customers from upstream and downstream industries. The number of small enterprise customers increased by 10.47% as compared with the beginning of the year. There were 166 strategic customers under the Head Office, representing an increase of 22.96% as compared with the end of the previous year. During the reporting period, 67 companies in the "Qian Ying Zhan Yi (千鷹展翼)" customer base had successfully launched their IPO in Chinese Mainland and each of them opened a special account with the Company for their IPO proceeds. Total amounts of proceeds under our custody reached RMB8.716 billion. As for transaction banking, the competitive edge of systematic operation took initial shape. At the end of the reporting period, the balance of our supply chain finance increased by 24.71%, and the amount of domestic factoring recorded a significant year-on-year increase of 498.29%.

As for **financial institutions finance**, the Company focused on customer operation, and ranked first among national small- and medium-sized banks in terms of the volume and proportion of interbank demand deposits, with the proportion of demand deposits of 77.94%. The Company managed to maintain its leading position in the interbank cross-border RMB business. As at the end of the reporting period, the number of interbank cross-border RMB accounts opened by banks and other financial institutions at home and abroad with the Company was the highest among national small- and medium-sized banks. The number of customers accessing the RMB Crossborder Interbank Payment System (CIPS) as an indirect participant through the Bank was the highest among national small- and medium-sized banks and second in the industry. The discounted bills transferred to other banks or financial institutions and rediscounted bills have maintained their leading position in the industry in terms of trading volume.

Investment banking and macro asset management business have become two growth drivers of the"Two Wings" thanks to our continuous efforts. Investment banking registered growth against the headwinds, recording a year-on-year increase of 16.84% in non-interest income; the balance of wealth management funds was RMB2.13 trillion, and the proportion of net-worth products reached 75.72%, indicating further progress in transformation to net-worth products; the scale of asset custody business maintained its growth, with a balance of RMB10.63 trillion; financial markets business sought opportunities in a risky environment, and foreign exchange and precious metals businesses realised breakthrough under adverse market conditions; the trading volume of RMB exchange rate swaps and single customer derivatives recorded an increase of 69.46% and 69.33%, respectively, as compared with the corresponding period of the previous year; our trading volume of interbank market RMB options has once again topped all competitors in the industry; and the Company ranked first in the overall rankings for market makers for interbank gold bilateral transactions during the second quarter.

3. *"One Body with Two Wings" has developed steadily with internal coordination.*

The Company has enhanced the referral of corporate customers from retail finance. During the reporting period, there were 9,111 active wholesale customers newly referred from retail finance. The Company further tapped into its strategic customers for further cooperation and provided exclusively 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 regarding sale 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. In the meantime, corporate finance of the Company grew rapidly, laying a solid foundation for the development of our retail finance. As at the end of the reporting period, the number of individual customers of our payroll service increased by 4.98 million for the whole year, of which active accounts for payroll service increased by 3.53 million, up by 20.06% as compared with the corresponding period of the previous year. The Company handled an amount of RMB625.526 billion under its payroll service for the year, an increase of 17.81% from the corresponding period of the previous year. In addition, a series of mega projects with significant market impact were rolled out through collaboration between our investment banking and commercial banking segments, which drove the dramatic increase of our market competitiveness and led to the rapid development of the liabilities and cross-border businesses. Financial institution customers helped in the Company's underwriting of RMB37.787 billion of financial bonds, and contributed RMB9.2 trillion to the scale of our custody business. The cross marketing of "Bills Keeper (票據管家)" has driven the expansion of corporate and retail finance businesses in the areas of corporate deposits, loans, payroll services and credit cards.

3.9 Changes in the External Environment and Corresponding Measures

3.9.1 Impact of Changes in Operating Environment and Key Business Concerns

1. Overview of the macroeconomic and financial outlook in the first half of 2017

In the first half of 2017, the domestic economy continued its steady and positive development trend, achieving an economic growth rate of 6.9%. Service industry and consumption remained the largest contributors, while new momentum played a further role, and the quality of economic growth was improved. Both import and export growth rates reversed their decline, while the overall balance of trade rebounded steadily. RMB exchange rate and foreign exchange reserves have been stable with good momentum for growth. Inflation rate was more moderate, and the year-on-year CPI growth was 1.4%. After deducting contributions from food and energy, core CPI grew 2.1% year-on-year; overall PPI remained stable and positive, and the number of new employees in urban area and the unemployment rate remained stable. Since this year, apart from taking precautions against potential financial risks, the Central Bank has strengthened its flexibility and foreseeability by reinforcing market communication, enhancing expectation guiding, and flexibly utilising various monetary policy tools such as open market operation, medium-term lending facilities (MLF) and pledged supplementary lending (PSL) to maintain market liquidity at a reasonable level. At the same time, fiscal spending remained stable and provided strong support for economic growth.

2. Net interest margin

In the first half of 2017, the net interest margin of the Company was 2.50%, representing a decrease of 13 basis points year-on-year and a decrease of 5 basis points as compared with the overall level of the previous year, which was primarily due to the fact that the change from business tax to value-added tax with price and tax separated resulting in a decrease in the carrying value of net interest income. However, in quarterly comparison, in the second quarter of 2017, the net interest margin of the Company was 2.51%, up by 2 basis points as compared with the first quarter, which rebounded for two consecutive quarters. It was primarily attributed to the fact that against the background of increasing market interest rates and pressure on liability costs, the Company realised the increase in the net interest margin through measures including optimising the structure of assets and liabilities, improving the return on assets and increasing the driving forces of deposits.

Looking forward into the second half of the year, the market interest rate is expected to fall, but will remain at a relatively high level. The situation of weak growth in deposits will continue, while the pressure on debt costs will persist. In the second half of the year, the Company will take the following major corresponding measures: firstly, the Company will take comprehensive measures to fully promote the growth of deposits, stabilise the sources of core liabilities and alleviate the pressure on active liabilities; secondly, the Company will optimise the loan structure, and strengthen the expansion efforts of high-yield products including consumption loans and credit card loans on the premise of putting risk under control; thirdly, the Company will deepen customer relationship management, and improve the pricing level of loan risk and comprehensive return to customers. Overall, it is expected that the net interest margin of the Company will remain relatively stable in the second half of the year.

3. Net non-interest income

In the first half of 2017, the Company realised net non-interest income of RMB37.591 billion, representing a year-on-year decrease of 11.11%, which was mainly due to: firstly, the policy of change from business tax to value-added tax, under which tax revenue was included in income, was not yet implemented during the first four months of the previous year, while the income for this year showed the result of price and tax separation; secondly, income from agency distribution of funds and agency distribution of trust schemes, which are highly related to the capital market, fell short of expectations; thirdly, with the tightening of regulatory policies this year, entrusted wealth management services, agency distribution of insurance policies, custodian services and financial institutions business were subject to greater impact, and the revenue growth of these services was under certain pressure.

As to focused projects, in the first half of the year, the Company achieved the fee and commission income from wealth management of RMB15.201 billion, representing a decrease of 25.61% as compared with the corresponding period of the previous year (of which: income from entrusted wealth management services amounted to RMB6.239 billion, down by 37.03% year-on-year; income from agency distribution of insurance policies amounted to RMB3.765 billion, down by 9.43% year-on-year; income from agency distribution of funds amounted to RMB3.063 billion, down by 26.09% year-on-year; agency distribution of trust schemes amounted to RMB2.047 billion, down by 2.15% year-on-year; income from agency distribution of precious metal amounted to RMB87 million; down by 34.51% year-on-year); income from bank card fees amounted to RMB6.465 billion, up by 37.14% year-on-year; custodian fee income amounted to RMB2.542 billion, down by 7.33% year-on-year.

In the context of increasingly stringent regulations and complex market changes, the Company will further adhere to its long-established and prudent business philosophy, and actively develop non-interest businesses. As to retail business, with the consistent and rapid growth of private wealth market in China, the Company will continue to focus on the field of wealth management, and develop a series of financial technology products including "Machine Gene Investment (摩羯智投)" based on Fintech, so as to improve the level of personalised services, and provide appropriate asset allocation plans for retail customers. In order to achieve a profit model transition from sole dependence on product commission to equal emphasis on both product commission and investment management services charges. In addition, the Company will rely on its large retail customer base and diversified product systems, in order to to promote the continuous development of consumer finance and online consumption payment and settlement business under the background of strengthened consumers' willingness to spend. On the wholesale side, the Company will continue to consolidate its existing business strength and actively grasp the market opportunities. Major measures being pursued include: as to asset management business, the Company has optimised the asset structure by improving the asset organisation and allocation capacity; as to investment banking business, through bond underwriting, M&A finance, structured financing and equity investment and financing business, the Company has provided customers with integrated services with integration of investment banking and commercial banking, so as to obtain higher comprehensive income; as to custody business, the Company, by increasing investment in custody system resources, has built up its core competencies with the highly specialised automated custody system; as to transaction revenue and other non-interest incomes, the Company strove to improve the investment income of transactions by strengthening its analysis and judgment on the market and regulatory policies, as well as reinforce risk control, so as to ensure the steady growth in transaction revenue.

4. *Capital Management*

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

In the first half of 2017, the Company promoted structural adjustments through optimising resources allocation, and the level of capital return was improved. The Company's risk-weighted assets under the weighted approach increased by 5.23% as compared with the end of the previous year, and Company maintained a steady growth in profitability with less capital consumption. The risk-weighted assets (taking into consideration the floor requirements during the parallel run period) under the advanced approach decreased by 5.06% as compared with the end of the previous year, and the percentage of risk-weighted assets to total assets was 49.85%, lowered by 4.69 percentage points as compared with the end of the previous year, indicating an effective saving in capital. Meanwhile, the Company continued to enhance the capital management refinement concept, promote the adoption of the risk adjusted return on capital (RAROC) and the economic value added (EVA) and other value assessment indicators, implement the internal capital adequacy assessment procedures (ICAAP), keep a dynamic balance of supply and demand of capital, trace the progress of international capital regulatory reform, as well as continually implement the Basel III global quantitative measurement and the quantitative measurement for systemically important banks.

The Company adhered to the development strategies of marketisation, branding and internationalisation, and continued to promote the innovative development for its assets securitisation business, so as to provide extra room for capital saving. During the entire year, several phases of credit assets securitisation projects were arranged, including non-performing and normal ones. During the reporting period, the Company has made one issue of non-performing credit asset-backed securities for credit cards. As at the end of the reporting period, the Company made a total of 15 issues of credit asset-backed securities, with an aggregate issue volume of RMB66.93 billion, leading the industry in terms of business types and market shares.

In the second half of the year, the Company will continue to adhere to the strategic direction of "Light-operation Bank", optimise its business and customer structures, deepen the application of advanced approach for risk capital measurement, increase the level of capital return and the capability of value creation, as well as comprehensively enhance the capital effectiveness.

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

As at 30 June 2017, the non-performing loan ratio of the Company was 1.80%, representing a decrease of 0.18 percentage point as compared with the end of the previous year, while the proportion of special mention loans in total loans was 1.79%, down by 0.36 percentage point from the end of the previous year. The loan allowance ratio was 4.05%, up by 0.50 percentage point from the end of the previous year. The allowance coverage ratio of our non-performing loans was 225.17%, representing an increase of 46.14 percentage points as compared with the end of the previous year. The credit cost ratio was 2.08%, representing a decrease of 0.19 percentage point as compared with the end of the previous year. The risk exposure was generally controllable.

In the first half of 2017, the Company's non-performing loans increased at a slower pace. In general, the balance of non-performing loans that occurred during the first half of the year amounted to RMB16.613 billion, representing a decrease of RMB14.064 billion or 45.85% as compared with the corresponding period of the previous year, and the non-performing loan occurrence ratio was 1.06%, representing a decrease of 1.18 percentage points as compared with the end of the previous year, and the cumulative non-performing loan occurrence ratio for the first and second quarters declined as compared with the corresponding period of the previous year; analysing by industry, the amount and ratio of non-performing loans occurred in the manufacturing and mining industries reduced significantly as compared with the corresponding period of the previous year; analysing by geographic area, the amount and ratio of non-performing loans occurred in the Yangtze River Delta and Western China where they were previously higher reduced significantly as compared with the corresponding period of the previous year; analysing by customer base, the amount and ratio of non-performing loans occurred in small-, medium- and large-sized enterprises also declined as compared with the corresponding period of the previous year.

During the reporting period, the Company further strengthened the disposal of non-performing loans and used a number of methods to manage risk assets. In the first half of 2017, the Company disposed of non-performing loans amounting to RMB17.791 billion, of which, RMB8.848 billion was written off in a regular way, RMB4.911 billion was cleared and settled, RMB1.236 billion was securitised as non-performing assets, RMB66 million was transferred at discount, and RMB2.730 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

In the first half of 2017, the Company relied on its efficient and sophisticated operating mechanism of asset securitisation to continue to accelerate the process of securitisation of the non-performing assets. During the reporting period, the Company launched a securitisation project for credit card non-performing assets, for which credit card non-performing assets with principal value of RMB1.236 billion were disposed of, and the nominal value of securities issued amounted to RMB230 million. The Company holds 5% of each tranche of such securities in accordance with regulatory requirements. The remaining securities were subscribed for by investors in the open market. The securitisation of the non-performing assets of the Company concluded with a number of achievements, i.e. establishment of a market-based issuing and pricing mechanism, realisation of real sale and bankruptcy ringfencing of the assets, transmission from asset holding to asset services, optimisation of the structure of the Company's assets and liabilities, improvement on asset liquidity, revenue structure and capital adequacy ratios.

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

6. *Asset quality in key areas*

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

In respect of real estate credit business, the Company dynamically adjusted its credit policy according to the policies on adjustments to the real estate industry, formulated and implemented stringent entry standards with respect to cities, customers and projects, continued to enhance the on- and off-balance sheet quota control on the full statistical calibre and strengthened the region and customer list management, proactively adapted to the national policies on industrial adjustment and strictly implemented the requirements of national policies to strictly control and regulate over-pricing of real estate properties at early stage, high main market leverage ratio, serious downturn of market turnover, cities showing housing bubbles and small- and medium-sized real estate developers with less resources, as well as businesses involving aggressive real estate customers, real estate projects with high leverage and high financing cost; deepened strategic cooperation with the prestigious real estate developers, thereby further raising the proportion of its strategic real estate customers and relatively robust cities 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 RMB395.121 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 RMB43.880 billion as compared with the beginning of the year. Included therein was the balance of loans to domestic real estate enterprises which amounted to RMB179.644 billion, representing an increase of RMB9.421 billion as compared with the end of the previous year, which accounted for 5.49% of the total loans and advances granted by the Company, down by 0.16 percentage point as compared with the end of the previous year. Since 2017, the quality of assets of the domestic real estate enterprises has improved, the non-performing loan ratio was 1.24%, down by 0.11 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, consignment actively managed by the Company, etc., and there is no incidence of risk event for bond investment in the real estate sector.

In respect of local government financing platform business, the Company implemented quota management on full statistical calibres. The Company further specified the requirements of total amount control and centralised regional management, adhered to the entry standard of "stable coverage of cash flow and compliant business model", and prioritised the allocation of its credit resources to local government financing platforms being operated under the market-based and commercial principles, having good cash flow and complying with the policies on government purchasing (procurement) and PPP model to optimise its loan structure. In addition, the Company continued with its research on the change of debt policy of the central and local governments, acting actively in concert with the replacement of local government debts and quota management, so as to safeguard the creditor's rights of the Company. As at the end of the reporting period, the risk exposure of our businesses with local government financing platforms (calculated on the broad statistical calibre) amounted to RMB239.114 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 RMB10.898 billion as compared with the beginning of the year. Included therein was the balance of loans on balance sheet which amounted to RMB99.730 billion, representing a decrease of RMB4.953 billion as compared with the end of the previous year, which accounted for 3.05% of the total loans and advances granted by the Company, down by 0.42 percentage point as compared with the end of the previous year. There was no non-performing asset for our businesses involving local government financing platforms.

For the 20 industries[1] that we have reduced or withdrawn from such as coal, iron and steel, cement, shipbuilding, photovoltaic and coal chemicals, the Company raised its entry threshold for customers, focused on supporting leading enterprises in industries and regional quality enterprises closely related to people's livelihood, prioritised the financing needs related to energy conservation and environmental protection and technological upgrading, devoted to reducing and withdrawing from customers associated with significant risks and lower class overcapacity, especially for customers in the process of reducing production capacity, deleveraging, and those meeting the "zombie enterprise" standards. In addition, the Company implemented stringent quota management for industry, enhanced the monitoring of withdrawal of risk-bearing loans and optimised risk mitigation measures. As at the end of June 2017, total balance of loans to industries that we have reduced or withdrawn from (calculated on the full statistical calibre) amounted to RMB254.709 billion, representing a decrease of RMB7.699 billion as compared with the beginning of the year. Included therein was, the balance of loans on balance sheet which amounted to RMB221.726 billion, representing a decrease of RMB7.865 billion as compared with the beginning of the year, which accounted for 6.78% of the total loans and advances granted by the Company, down by 0.84 percentage point as compared with the beginning of the year. The non-performing loan ratio was 10.78%, down by 2.64 percentage points as compared with the beginning of the year. The balance of steel and cement and other industries increased as compared with the beginning of the year, mainly due to the increase in loans for quality enterprises and advanced production capacity; the non-performing loans of shipbuilding and coal chemical industry and other industries decreased more, mainly due to the expedited withdrawal of customers associated with risks and lower class production capacity.

7. The proprietary funds invested in non-standard creditor's assets

During the reporting period, the Company further tightened risk control in the proprietary funds invested in non-standard creditor's assets and emphasised compliance with the rules in respect of the fund investment, carefully evaluated the risks and made adequate provision based on the nature of the invested basic assets in strict compliance with the regulatory requirements. As at the end of the reporting period, the balance of the Company's proprietary funds invested in non-standard creditor's assets amounted to RMB564.700 billion, representing an increase of 11.18% as compared with the end of the previous year. The assets structure as at the end of the reporting period is as follows:

The balance of proprietary funds invested in non-standard creditor's assets under the credit category amounted to RMB542.384 billion, representing an increase of 21.39% as compared with the end of the previous year, in which RMB223.764 billion was for corporate creditor's beneficiary rights, up by 55.38% as compared with the end of the previous year, mainly due to the increase in demand for corporate loans during the reporting period; RMB60.077 billion was for individual creditor's beneficiary rights, down by 2.94% as compared with the end of the previous year; and RMB258.543 billion was for beneficiary rights to discounted bank acceptance bills and commercial acceptance bills, up by 7.33% as compared with the end of the previous year. The non-performing ratio of the proprietary funds invested in non-standard creditor's assets under the credit category was 0.59%, down by 0.25 percentage point as compared with the end of the previous year.

The balance of proprietary funds invested in non-standard debt assets under the non-credit category amounted to RMB22.316 billion, representing a decrease of 63.49% as compared with the end of the previous year. The objects of such investments include investment in wealth management products of banks and other financial institutions, and negotiated deposits or term deposits placed with other commercial banks.

1 The 20 industries refer to coal, steel trade, cool trade, iron and steel, electrolytic aluminium, shipbuilding, glass, water transport, coking, coal chemical, engineering machinery, photovoltaic, cement, basic chemical, nonferrous metal smelting and calendering (excluding electrolytic aluminium), commonly used metal ore mining, fertiliser, paper, textile and chemical fiber.

As at the end of the reporting period, the balance of provisions for full-calibre credit assets (including proprietary loans and proprietary funds invested in non-standard creditor's assets under the credit category) amounted to RMB135.783 billion, including the balance of loan provisions of RMB132.351 billion and the balance of provisions for proprietary funds invested in non-standard creditor's assets under the credit category of RMB3.432 billion. The full-calibre credit assets allowance ratio was 3.56%, representing an increase of 0.31 percentage point as compared with the end of the previous year, whereas the non-performing loan allowance coverage ratio of credit assets was 219.17%, representing an increase of 42.10 percentage points as compared with the end of the previous year.

8. *Financial Technology (Fintech)*

During the reporting period, the Company proactively enhanced its financial technology capability through the promotion of financial technology innovation, pushed forward innovative applications for mobile internet, cloud computing, big data, artificial intelligence, block chain and other emerging technologies. The Company clearly positions itself as a "Fintech bank", benchmarking with Fintech companies so as to move faster towards the target of a "network-based, digitised and intelligence-oriented" bank.

For financial technology innovation, the Company took 1% of pre-tax profits of the previous year to set up financial technology innovation project funds to encourage the application of emerging technologies for financial innovation in the whole Bank. The Company introduced the "Lean Innovation" approach, set up a set of workflow for innovative projects that matched the Company's features and covered the full lifecycle of "Lean Innovation", and integrated internal and external resources for the purposes of providing comprehensive incubation support for innovative projects as well as improving innovation quality and success rate. Meanwhile, the Company strengthened exchanges with leading foreign technology companies, explored diversified ways of cooperation, and proactively carried out exploration, research and introduction of external innovative and emerging technologies.

In respect of retail finance, the Company adhered to the strategy of "mobile priority". During the reporting period, China Merchants Bank APP launched new functions including live broadcast, revenue reports, top gainers list, revenue and expenditure record 2.0 and other functions, created a new customer mobile-based business service model, and continued to enhance customer online activity and viscosity. The Company continuously improved the intelligent services of our mobile APP CMB Life, creating a big data-based personalised information recommendation function, vigorously developed cash-based consumer credit businesses, and launched E-CMB-Loan (e招貸) products. As at the end of the reporting period, the number of customers who have downloaded the China Merchants Bank APP added up to 48.05 million, with 28.55 million active users throughout the year. The number of registered users of our mobile APP CMB Life reached 37.53 million, with 31.95 million active users throughout the year. A total of RMB38.1 billion E-CMB-Loan product transactions were concluded, with a balance of more than RMB30 billion. In respect of risk management, the Company continued to introduce third-party credit data and borrowing information of customers through P2P, small loans, consumer finance companies and other platforms, and continuously optimised the scoring model and early warning model; introduced biometric technology for customer authentication, and established a new anti-fraud model by making use of multi-dimensional customer data to accurately identify customer counterfeit applications. During the reporting period, the amount of non-performing Flash Loan formation of the purely online loan products continued to decline. As at the end of the reporting period, the total amount of loans granted by Flash Loans was RMB25.34 billion, the loan balance was RMB11.945 billion and the non-performing ratio was 0.23%. In respect of wealth management, dynamic adjustments to asset allocation were repeatedly made for "Machine Gene Investment (摩羯智投)" to provide customers with six monthly investment operation reports, and the aggregate placement amount reached RMB4.5 billion with average return in the first half reaching the top 1/3 of non-monetary funds.

In the field of wholesale finance, the Company continued to innovate service models by making use of mobile Internet, big data and block chain technology. In respect of customer management, the Company introduced mobile customer relationship management system (CRM) to guide relationship managers to carry out mobile customer management. In respect of financial institutions customers, online interbank deposits were launched via our platform "Zhao Ying Tong (招赢通)" to achieve one-stop, fully automated interbank transaction matchmaking and deposit businesses. As at the end of the reporting period, 1,108 financial institutions officially signed the agreement in connection with the platform, and the online business volume reached RMB326.463 billion, with the online trading replacement rate of nearly 50%; in respect of payment and settlement innovation, the first online domestic and Asia-Pacific region's block chain cross-border project – cross-border direct payment block chain platform was launched while a new business eco-system for corporate mobile payment and settlement through mobile checks was created. As at the end of the reporting period, the effective transactions through mobile checks amounted to 6.7459 million, representing an increase of 443.94% as compared with the corresponding period of the previous year; and the accumulated transaction amounts reached RMB332.464 billion, representing an increase of 373.49% as compared with the corresponding period of the previous year; in respect of risk management, an enterprise big data monitoring platform of the borrowers was introduced with the use of Internet data for lenders to monitor abnormal information throughout the entire network to help relationship managers take the initiative to identify abnormal business signals.

In addition, the Company continued to promote its diversified collaboration with partners from other industries, aiming to build a financial technology eco-system highlighted with our own characteristics. Merchants Union Consumer Finance Company Limited, a company jointly established by the Bank and China Unicom, proactively carries out big data model, credit, counterfeiting prevention and production and research cooperation. As at the end of the reporting period, the registered users reached 31.31 million, with 11.89 million approved customers, and an aggregate amounts of RMB126.2 billion of loans was granted, with a loan balance of RMB32.3 billion and a non-performing ratio of 1.15%. CMB Qianhai Financial Asset Exchange Co., Ltd., a company jointly set up by the Bank and China Merchants Group, builds a highly efficient non-standard financial assets operating system and wealth management platform with the help of cloud computing, big data and other technologies. As at the end of the reporting period, the aggregate transaction volume amounted to RMB398.981 billion, among which the transaction volume during the reporting period amounted to RMB297.095 billion; and 213,300 users registered for its "Zhaozhao Licai (招招理財)" service. The strategic cooperation with Didi Chuxing expanded rapidly, with 1.27 million joint-brand credit cards and 1.9 million joint-brand debit cards issued as at the end of the reporting period.

3.9.2 Outlook and Measures for the second half of 2017

Looking ahead into the second half of 2017, the world economy is generally positive, but unstable and uncertain factors still linger. The room for world trade recovery is limited, and the economy will continue to rebound while the challenges still exist. The overall domestic economic situation is stable; the supply-side reform and innovation-driven strategy will be further promoted; the policy dividend will continue to prosper; and the transformation of old and new momentum will speed up. The monetary policy will remain sound and the keynote is unlikely to change, the market liquidity may not be loose, and rectifying the financial order, shortening the chain of funds and reducing financial leverage will become the regulatory focus to guide the flow of funds to "move further from the fictitious economy to the real economy". Hampered by debt constraints, there is limited room for financial expansion, and the growth of infrastructure investment will slow down. The improvement of enterprise efficiency will enhance the investment ability and investment expectation. The real estate control policy will continue to take effect, and the adverse impact on real estate investment will gradually appear. Resident income growth will slow down, and consumption growth will be subject to certain constraints. The cycle of enterprises making up the inventory will gradually weaken, and the rebound momentum of industrial and manufacturing production will remain unstable. The price level will keep stable, and the inflationary pressure in the second half of the year will be limited. Overall, China's economic growth in the second half of the year will slow down moderately, structural adjustment will further accelerate and the overall economic and financial risk will remain controllable.

From the banks' perspective, the status of "tight-balance" in the monetary environment, financial "deleveraging", organisational problems of high-quality assets and increasingly stringent regulatory pressure may exert a continued downward pressure on profit growth of commercial banks. However, there are still a series of positive factors which may create important opportunities to resolve the operating pressure: firstly, with the improved external demand and corporate earnings, manufacturing investment will continue to increase, and credit and other financing needs will pick up; secondly, as new town construction continues to push forward, in particular, with the implementation of tourism, culture, healthcare, pension and other consumption policies, the pace of transformation and upgrading of residents' consumption will accelerate; thirdly, the marginal improvement in liquidity is conducive to the bond market, in particular, the launch of "Bond Connect" is essential to further enhancing investors' confidence, widening investment channels and the source of funds; fourth, the reform of state-owned enterprises will continue to deepen, there is a prominent trend that mergers, acquisitions and restructuring of central enterprises in power, coal, iron and steel, heavy equipment and other industries are accelerating, and local state-owned enterprises are also actively carrying out mergers and acquisitions, thus creating a lot of opportunities for commercial banks to engage in investment bank activities for mergers and acquisitions in the capital market.

III Report of the Board of Directors

In the near future, "enhancing regulatory control and improving weak links" will become the new normal of the financial industry. The Company will face different challenges such as tightening of the monetary environment, intensification of macro-prudential supervision, frequent business inspection and risk checking, changes in government financing mode and cross-financial risk transmission, etc.. Under the new situation, the Company will continue to adhere to the strategic direction and positioning of "Light-operation Bank" and "One Body with Two Wings" in the second half of the year. On the one hand, the customer origin, service origin and business origin will be refocused, with the emphasis on consolidating the advantages, laying a good foundation and improving weak links; and on the other hand, a new business model will be created through proactive application of financial technology to find a new impetus for sustainable development. Specifically: **the first** is to continue to deepen the reform and transformation. The wholesale line will focus on promoting establishment of two major systems, namely the client service system and the management system covering relationship managers. The retail line will accelerate network transformation and matching process optimisation in accordance with the network location such as O2O offline delivery center, customer relationship management and experience center and complex product sales center. Meanwhile, the Company will deepen the strategy of "mobile priority", and achieve light operations and enhance customer experience through the integration of online and offline omni-channels. **The second** is to take the initiative to embrace financial technology, affirm the positioning of a "Fintech bank", take technological transformation as the most important task in the next three to five years, roll out the research and development and application of financial technology in full; re-examine and re-build the way our service is provided, and adjust the internal organisation, processes, systems and culture accordingly. **The third** is to fully implement the risk management strategy of "getting to the root", unswervingly implement the strategic orientation, continue to deepen the structural adjustment, impose control on key links through the process and system, enhance the risk control measures of "getting to the root", while adapting to the changes brought to risk management models from big data and artificial intelligence, increase risk management-related technology investment, and promote risk management changes. **The fourth** is to comprehensively consolidate the foundation of the transformation and development through intensive internal optimisation, including the consolidation and strengthening of the basic advantages of services, consolidate and enhance basic management, and comprehensively enhance the quality and capability of our staff in accordance with the positioning of a "Fintech bank". In short, under the background of the new normal of financial regulation, the Company will adopt both progressive and defensive strategies with a view to achieve the best results and proactively strive to create a new era for transformation.

3.10 Business Operations

3.10.1 Retail finance

Business overview

During the reporting period, the profit before tax from retail finance business of the Company amounted to RMB26.911 billion. It accounted for 57.17% of the total profit before tax of the whole business lines of the Company. The net operating income from the retail finance amounted to RMB54.750 billion, representing an increase of 4.99% as compared with the corresponding period of the previous year, and accounting for 51.40% of the net operating income of the Company, up by 3.02 percentage points as compared with the corresponding period of the previous year, among which, the net interest income from retail finance amounted to RMB34.785 billion, representing an increase of 7.30% as compared with the corresponding period of the previous year and accounting for 63.53% of the net operating income from retail finance, while the net non-interest income from retail finance amounted to RMB19.965 billion, representing an increase of 1.18% as compared with the corresponding period of the previous year and accounting for 36.47% of the net operating income from retail finance, and 53.11% of the net non-interest income of the Company. In the first half of 2017, the retail finance of the Company recorded a fee income of RMB6.412 billion from bank cards (including credit cards), representing an increase of 37.45% as compared with the corresponding period of the previous year; the fee and commission income from retail wealth management was RMB11.115 billion, representing a decrease of 18.80% as compared with the corresponding period of the previous year and accounting for 57.29% of the net fee and commission income from retail finance.

Unlike its domestic peers, the Company has always prioritised the development of its retail finance business, and structural advantages are formed. In the first half of 2017, the Company further consolidated its retail customer base through continuous optimisation of management system, product system, service system, channel system and risk prevention system for its retail finance business. The Company has outstanding competitive edges 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 June 2017, the Company had 97.33 million retail customers (including the customers of its debit cards and credit cards), representing an increase of 6.89% as compared with the end of the previous year, among which, the number of Sunflower-level and above customers (those with minimum daily average total assets of RMB500,000 for each month) reached 2,048,000, representing an increase of 7.38% as compared with the end of the previous year. The balance of total assets under management (AUM) from our retail customers amounted to RMB5,898.3 billion, representing an increase of 6.65% as compared with the end of the previous year, among which, the balance of total assets under management from the Sunflower-level and above customers amounted to RMB4,820.8 billion, representing an increase of 6.17% as compared with the end of the previous year, and accounting for 81.73% of the balance of total assets under management from retail customers of the Bank. The balance of deposits from retail customers amounted to RMB1,270.555 billion, representing an increase of 6.62% as compared with the end of the previous year, of which the percentage of demand deposits grew to 78.50%, up by 2.11 percentage points as compared with the end of the previous year. According to the data released by the PBOC, the Company continued to rank first among the national small- and medium-sized banks in terms of the balance of retail deposits. As at the end of the reporting period, a total of 110,410,000 All-in-one Cards have been issued by the Company for retail customers, up by 5.22% as compared with the end of the previous year. The average deposit balance per All-in-one Card amounted to RMB10,300, up by 1.98% as compared with the end of the previous year.

In the first half of 2017, in response to the market conditions with tightened market liquidity, peer competition and intensified impact of internet finance, the Company increased its investment in Fintech, and maintained its development in the fields of mobile technology, big data, artificial intelligence and other infrastructure, so as to further consolidate its retail customer base, and achieve a steady growth of its retail customer base and assets under management (AUM). During the reporting period, by grasping the development opportunity of internet finance, the Company further promoted its "Light-operation Bank" strategy. Through the optimisation of CMB APP, the capability of allocation of sophisticated products and analysis of big data associated with retail customers were enhanced. The Company also fully boosted the development of financial service platform, business management refinement and precise marketing towards customers.

Wealth management

In the first half of 2017, the Company recorded RMB3,896.4 billion in sales of personal wealth management products, RMB321.9 billion in the agency distribution of open-ended funds, RMB104.6 billion in agency distribution of trust schemes and RMB45.4 billion in premiums from agency distribution of insurance policies. Fee and commission income from retail wealth management business was RMB11.115 billion, representing a decrease of 18.80% as compared with the corresponding period of the previous year (among which: income from agency distribution of insurance policies amounted to RMB3.764 billion, representing a decrease of 9.39% from the corresponding period of the previous year; income from agency distribution of funds amounted to RMB3.063 billion, representing a decrease of 26.03% from the corresponding period of the previous year; income from entrusted wealth management amounted to RMB2.385 billion, representing a decrease of 31.76% from the corresponding period of the previous year, income from agency distribution of trust schemes amounted to RMB1.819 billion, representing an increase of 2.77% as compared with the corresponding period of the previous year; and income from precious metals amounted to RMB84 million, representing a decrease of 34.38% as compared with the corresponding period of the previous year). For the reasons of changes in fee and commission income from wealth management, please refer to the analysis of net non-interest income under Section 3.9.1 of this report.

During the reporting period, the wealth management business of our Company enjoyed strong support from our professional market research team, which conducted independent research on the macro market as well as the trend and development of the financial market, regularly provided the opinions on the market, the medium- to long-term investment strategies and the allocation strategies for large asset categories, as well as fully supported the investment decision of the wealth management business. Meanwhile, through research and judgment on the development of the macro economy, the competitive environment of the market, the development trend of the wealth management business and the investment preferences of customers, the Company adhered to its "customer-centric" concept in the backdrop of the ups and downs of the market, homogeneous competition within the industry, increasingly fierce competition from other sectors and other adverse external conditions. By utilising big data, artificial intelligence, image identification and other Fintech technologies, the Company actively developed the wealth management integrated service system consisting of the fund after-sales service system, in order to further enhance the core competitiveness of its wealth management business.

Private banking

As at the end of the reporting period, the Company had 63,985 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 7.43% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB1,793.6 billion, representing an increase of 8.08% as compared with the end of the previous year. As at the end of the reporting period, the Company has established a high-end customer service network consisting of 58 private banking centers and 63 wealth management centers in 54 domestic cities and 6 overseas cities.

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 clients with professional, comprehensive and private services covering their individual, family and corporate needs tailored to meet their diversified demands in respect of investment, taxation, legal affairs, M&A, financing and clearing. In the first half of 2017, in response to the market fluctuations, the Company continued to deepen comprehensive customer management, constantly built up its diversified customer acquisition system, promoted the development of market-research-driven products, implemented asset allocation and pushed forward the comprehensive upgrading of private banking business by providing various services including discretionary entrustment, tax planning, offshore equity trust, family trust, M&A financing and investment banking matchmaking, with a view to building an integrated financial service platform. During the reporting period, the Company was once again awarded the "Best Private Bank in China" by *Euromoney*, *Private Banker International* from Singapore and other competent bodies.

Credit cards

As at the end of the reporting period, the Company had issued an aggregate of 88.12 million credit cards, with 51.92 million active cards and 6.42 million new cards issued during the reporting period, there were 41.11 million active credit-card users, representing an increase of 10.21% as compared with the end of the previous year. The Company continued to improve the efficiency of customer acquisition and management. The credit card transaction of the Company from January to June 2017 amounted to RMB1,288.1 billion, representing an increase of 22.27% as compared with the corresponding period of the previous year, and the average transaction of each active card per month amounted to RMB4,389. The percentage of the revolving balances of credit cards was 22.39%. The balance of credit card loans was RMB456.086 billion, representing an increase of 11.51% as compared with the end of the previous year. From January to June 2017, interest income from credit cards amounted to RMB18.920 billion, representing an increase of 21.63% as compared with the corresponding period of the previous year. Non-interest income from credit cards amounted to RMB6.775 billion, representing an increase of 29.37% as compared with the corresponding period of the previous year. As at the end of the reporting period, the non-performing loan ratio of credit cards business was 1.26%, representing a decrease of 0.14 percentage point as compared with the end of the previous year. The business risk exposure was controllable in general.

During the reporting period, by effectively promoting the application of Fintech, the Company fully enhanced the operational capability of the "CMB Life (掌上生活)" APP, with a view to establishing the operation system for credit card customers featuring financial realisation, easy payment, proper risk control and service orientation. As at the end of the reporting period, the total number of registered users of "CMB Life (掌上生活)" APP reached 37.53 million, with 31.95 million active users for the year. By constructing the function of personalised information recommendation based on big data, as well as the application of voice recognition, face verification and other technologies, the upgrading of Fintech-based intelligent services was realised. The effectiveness of information-driven customer acquisition was constantly improved. Among new customers acquired during the reporting period, the proportion of customers from information acquisition recorded an increase of 15 percentage points as compared with the corresponding period of the previous year. By establishing the one-stop credit management platform "Quan Jing Zhi E (全景智額)", the Company launched reserved offshore temporary credits, car installment and other credit products for different consumption contexts, so as to lead the new trend of steward credit services. With the application of Fintech including differentiated risk pricing, big data and scenario marketing, the innovative consumption finance product "E-CMB-Loan (E招貸)" realised rapid development. During the reporting period, the transaction amount of "E-CMB-Loan (E招貸)" reached RMB38.1 billion, with the balance of over RMB30.0 billion. The launch of new regional consumption finance product "E-Flash-Loan (e閃貸)" optimised the product system of consumption finance. The Company proactively cooperated with internet enterprises in respect of card products, and launched a number of popular co-branded cards. Being the first bank applying biological identification technology to the area of account payments, the Company launched fingerprint payment services with "CMB Life (掌上生活)" APP. Through the cooperation with UnionPay, Apple Pay, Alipay, Wechat and Jingdong, the Company enlarged the coverage of card-free payments, as well as enhanced the customer's payment experience. The Company also organised the brand integration marketing activity named "Being Popular Together with You (和你一起紅)", and launched the "He (和)" card for its 30th anniversary. Internationally, the Company initiated "Extraordinary England (非常英倫)", "Extraordinary Dubai (非常迪拜)" and other marketing activities, in order to maintain its leadership in overseas markets.

Retail loans

In the first half of 2017, the Company proactively grasped market opportunities, and strived to expand the scale of retail loan business on the premise of effective control of risks associated with retail loans. As at 30 June 2017, the total retail loans of the Company amounted to RMB1,682.374 billion, representing an increase of 10.63% as compared with the end of the previous year and accounting for 51.43% of the total loans and advances to customers, up by 0.98 percentage point as compared with the end of the previous year.

As to business development, during the first half of 2017, the Company developed its residential housing loan business in accordance with the control requirements of the State, and steadily pushed the grant of micro-finance loans and consumption loans. As at the end of the reporting period, the Company recorded a balance of residential housing loans of RMB799.902 billion, representing an increase of 11.05% as compared with the end of the previous year and accounting for 47.55% of the retail loans of the Company. As at the end of the reporting period, the balance of micro-finance loans amounted to RMB296.066 billion, representing an increase of 5.12% (calculated on the Bank's statistical calibre) as compared with the end of the previous year, and accounting for 17.60% of retail loans, down by 0.92 percentage point as compared with the end of the previous year. The non-performing loan ratio of micro-finance loans was 1.44%, down by 0.2 percentage point as compared with the end of the previous year. The floating percentage of the weighted average interest rate of micro-finance loans newly granted (weighted at actual amounts, same as below) during the reporting period was 38.77%. As at the end of the reporting period, the balance of consumption loans amounted to RMB84.077 billion, up by 31.19% as compared with the end of the previous year. The non-performing loan ratio of consumption loans was 1.27%, down by 0.34 percentage point as compared with the end of the previous year. The floating percentage of the weighted average interest rate of consumption loans newly granted during the reporting period was 43.31%.

As to platform construction, the Company continued to upgrade and improve the "light-operation platform" for retail credit, and further optimise the platform of "Flash Loan (Flash Loan)". All-round business statistics and risk performance of "Flash Loan (Flash Loan)" maintained a positive trend. As at the end of reporting period, the accumulated amounts of "Flash Loan (Flash Loan)" totaled RMB25.340 billion, with a non-performing ratio of 0.23%, which was maintained at a low level.

As to the quality of assets, benefiting from the stable and positive external economic environment, the Company continued to optimise its policies for retail loans and enhance its risk management capabilities. As a result, the quality of retail loan assets continued to improve. As at 30 June 2017, the balance of the special mention retail loans of the Company amounted to RMB19.157 billion, representing a decrease of 6.91% as compared with the end of the previous year, and the proportion of special mention retail loans recorded a decrease of 0.21 percentage point as compared with the end of the previous year. Balance of non-performing retail loans amounted to RMB14.779 billion with a non-performing loan ratio of 0.88%, down by 0.13 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 78.74% of the balance of new non-performing retail loans of the Company during the first half of 2017, representing a mortgage and pledged loan rate of 49.9%. Given that a vast majority of such new non-performing retail loans were fully secured by collaterals, the final loss was not substantial and the risk associated with retail loans was generally controllable.

The Company attached significant importance to risk management, and established a complete risk management system covering its front, middle and back offices. During the reporting period, the Company proactively strengthened the management of retail credit team, enhanced the team's professional capabilities, as well as continued to speed up the implementation of centralised approval procedures for businesses of the whole Bank. The proportion of retail loans subject to centralised approval exceeded 80%, while the automatic approval procedures for our residential mortgage business was increasingly mature. Meanwhile, the centralised retail credit approval center innovatively applied Fintech to approval procedures. By upgrading the centralised approval system, the scope of information collection was enlarged, and the intelligent risk identification of the system is enhanced. By constant optimisation of risk models and its application to the formulation of product policies, approval procedures, post-loan management and other areas, a standardised, systematic, data-based and modelised risk control system has basically been established.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB20.157 billion, accounting for 42.83% of profit before tax for the business lines of the Company. The net operating income from wholesale finance of the Company was RMB52.382 billion, representing a decrease of 3.64% as compared with the corresponding period of the previous year, and accounting for 49.18% of the net operating income of the Company. Among which, the net interest income from wholesale finance amounted to RMB34.629 billion, representing an increase of 5.77% as compared with the corresponding period of the previous year, and accounting for 66.11% of the net operating income of wholesale finance; net non-interest income of wholesale finance amounted to RMB17.753 billion, representing a decrease of 17.89% as compared with the corresponding period of the previous year and accounting for 33.89% of the net operating income of wholesale finance, and 47.23% of net non-interest income of the Company.

Corporate customers

In the first half of 2017, the Company continued to proactively adjust its customer mix for the purpose of prudential management, and replaced the granting of general loans with diversified financing services to actively implement the development strategy of operating as a "Light-operation Bank" and keep abreast of the changes in customers' financing needs. The Company had 19,600 corporate borrowers, representing a decrease of 6.67% as compared with the end of the previous year.

During the reporting period, the Company further consolidated its customer base. The Company had 1,427,400 corporate depositors, representing an increase of 10.22% as compared with the end of the previous year. Among which, 169,000 new corporate depositors opened accounts in the Company during the reporting period, representing an increase of 2.42% as compared with the corresponding period of the previous year.

Corporate loans

As at 30 June 2017, total corporate loans of the Company amounted to RMB1,440.563 billion, representing an increase of 7.32% as compared with the end of the previous year and accounting for 44.04% of total loans and advances to customers. Among them, the balance of the medium- to long-term loans to domestic enterprises amounted to RMB557.342 billion, accounting for 41.58% of the total loans to domestic enterprises, and representing a decrease of 1.1 percentage points as compared with that at the end of the previous year. The non-performing loan ratio of our corporate loans was 3.05%, a decrease of 0.25 percentage point as compared with that at the end of the previous year. In the first half of 2017, the floating range of weighted average interest rates of newly granted corporate loans in RMB was 1.82%.

Since the underlying data is subject to adjustment as a result of change in classification of certain enterprises after they have grown larger in scale at the beginning of the year, the calibre of our large-and medium-sized enterprises business at the beginning of the year was adjusted as compared to the end of the previous year. As at the end of the reporting period, the balance of the Company's loans granted to domestic large-sized enterprises amounted to RMB1,008.583 billion, representing an increase of 8.83% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 75.25% of our total loans granted to domestic enterprises, up by 0.71 percentage point as compared with the beginning of the year with a non-performing loan ratio of 2.63%, down by 0.44 percentage point as compared with the beginning of the year; as the Company actively adjusted the loan structure, the balance of the Company's loans granted to domestic medium-sized enterprises amounted to RMB172.254 billion, representing a decrease of 2.36% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 12.85% of our total loans granted to domestic enterprises, down by 1.34 percentage points as compared with the beginning of the year with a non-performing loan ratio of 6.85%, up by 1.08 percentage points as compared with the beginning of the year.

Since the underlying data is subject to elimination as a result of change in classification of certain enterprises after they have grown larger in scale at the beginning of the year, the calibre of our small enterprises business at the beginning of the year was adjusted as compared to the end of the previous year. As at the end of the reporting period, the balance of loans granted to domestic small enterprises amounted to RMB159.458 billion, representing an increase of 13.86% (calculated on the Bank's calibre) as compared with the beginning of the year and accounting for 11.90% of domestic corporate loans, up by 0.63 percentage point as compared with the beginning of the year. The non-performing loan ratio was 3.33%, representing a decrease of 0.47 percentage point as compared with the beginning of the year. The number of small enterprise customers of the Company increased by 10.47% to 1,332,800 as compared with the beginning of the year. During the reporting period, the floating range of the weighted average interest rate of the Company's loans granted to small enterprises was 18.69%.

In 2017, 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 industries and green industries, and flexibly adjusted loans to real estate, local government financing vehicles and other industries in response to the changes in external operating environment. As at 30 June 2017, the balance of loans to strategic emerging industries was RMB63.192 billion, representing an increase of RMB4.509 billion as compared with the end of the previous year, and accounting for 4.39% of the total corporate loans of the Company; and the balance of green credit was RMB121.926 billion, and accounting for 8.46% of the total corporate loans of the Company. For further details of loans extended to the sectors which are subject to the strict regulation of the State, such as the real estate industry and the local government's financing vehicles, please refer to the analysis for asset quality in key areas under Section 3.9.1 of this report.

The "Qian Ying Zhan Yi (千鷹展翼)" is a strategic brand of the Company to serve the emerging small- and medium-sized innovative technology enterprises. During the reporting period, the Company continued to step up its effort to expand the customer base for "Qian Ying Zhan Yi (千鷹展翼)", and to innovate finance products specific for technology enterprises by launching "Gao Xin Dai (高新貸)" and other products. Meanwhile, the Company aggressively commenced the innovation of investment and loan linking business, and worked closely with external investment institutions, so as to provide diversified investment and loan linking services for enterprises registered under "Qian Ying Zhan Yi (千鷹展翼)". As the customer base of the growing small- and medium-sized innovative technology enterprises which the Company has been striving to expand, the "Qian Ying Zhan Yi (千鷹展翼)" was based on the marketing model of deriving target customers through a carefully-compiled list. At the beginning of 2017, the Company continued to take the initiative to adjust and optimise the internal structure of our customer base while continuing to consolidate the number of customers. As at 30 June 2017, the Company had a total of 20,909 registered customers under "Qian Ying Zhan Yi (千鷹展翼)", representing an increase of 740 registered customers on the basis of customer base adjustment at the beginning of the year. The total amount of the credit lines granted to such customers as at the end of the reporting period amounted to RMB64.788 billion with the balance of loans granted to such customers amounting to RMB28.283 billion. The non-performing ratio was 0.28%.

The main purpose of the Company's syndicated loan business is to enhance inter-bank cooperation and information sharing and diversify the risks associated with large-amount loans. As at 30 June 2017, the balance of syndicated loans amounted to RMB102.486 billion, down by 25.80% as compared with the end of the previous year.

Discounted bills

In the first half of 2017, after taking into consideration its total credit, liquidity, gains and risk profile, the Company effectively allocated and promoted its discounted bills business. The volume of the directly discounted bills amounted to RMB428.862 billion during the reporting period, maintaining its leading position in the industry in terms of business volume. As at 30 June 2017, the balance of discounted bills amounted to RMB147.997 billion, representing a decrease of 2.29% as compared with the end of the previous year and accounting for 4.53% of the total loans and advances granted by the Company.

Corporate customer deposits

In the first half of 2017, the corporate customer deposits of the Company maintained steady growth. As at 30 June 2017, the balance of corporate customer deposits amounted to RMB2,682.870 billion, representing an increase of 9.46% as compared with the end of the previous year; the daily average balance amounted to RMB2,573.505 billion, representing an increase of 10.15% as compared with the corresponding period of the previous year; among the daily average balance of corporate customer deposits, the demand deposits accounted for 56.28% of total deposits from our corporate customers. In the first half of 2017, the average cost ratio of deposits from corporate customers was 1.47%, down by 0.01 percentage point as compared with the overall level of the previous year.

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 cross-sales of other corporate and retail products. As of 30 June 2017, the Company had a total of 1.2362 million customers using its cash management service, representing an increase of 11.35% as compared with the end of the previous year. Thanks to its continuous efforts to consolidate the "C+ Cash Management Solution" brand, the Company recorded over 110,000 newly opened accounts and 403,000 newly issued "All-in-one Cards for Company (公司一卡通)". The Company saw its basic cash management business maintain its healthy growth. As of 30 June 2017, the cumulative number of households in the cross-border cash pool reached 352. The Company continued to advance the optimisation, innovation and promotion of its products such as "C+ Account – portfolio deposits", Virtual Cash Pool, Multi-level Cash Pool and Global Cash Management ("GCM"). The Company also continued to upgrade its cross-bank cash management products to new iterations, innovate and launch Cross-bank Solution for Cash Management ("CBS") Mobile Internet Series 2.0 Application and Cloud Architecture-based CBS-TT version, as well as online production and financial collaboration platform (SCBS), which provided strong support to the marketing of its key projects serving the leading industry, multinational corporations and financial institutions. The number of our group customers and companies under management grew up to 1,219 and 39,600, respectively.

With respect to its supply chain finance, the Company expedited the industrial Internet layout, and established a closed loop for end-to-end industry Internet financial services, centering around the vertical industry supply chain and horizontal integrated trading chain, developed the Internet supply chain finance both in width and depth, and launched the "smart supply chain finance version 4.0" for industrial Internet which was boosted by Fintech technology and under the integration of investment banking and commercial banking. In the first half of 2017, the Company diligently optimisd quality supply chain customers in accordance with the business ideology of "financing + wisdom pooling + Fintech application". The balance of our supply chain finance at the end of the period amounted to RMB120.795 billion, representing an increase of 24.71% as compared with the end of the previous year. Asset quality continued to be good, and the non-performing asset ratio was only 0.17%; the payment agency business transaction volume was RMB36.713 billion, representing a year-on-year increase of 194.65%; the bills pool business transaction volume was RMB68.890 billion, representing a year-on-year increase of 116.91%.

With respect to trade finance, the Company consolidated the combination and extended application of its financing products for domestic trade while taking the initiative to adjust the investment structure of its financing assets and focusing on promoting domestic factoring businesses. In the first half of 2017, the value of domestic factoring was RMB78.526 billion, representing a year-on-year increase of 498.29%. Under the circumstances of two-way exchange rate fluctuations and more prudent risk management, the Company promoted investment through innovation of products and models such as re-financing for export and factoring for services and trade. The Company's onshore financing for international trade remained stable with an average monthly balance of USD6.513 billion, representing an increase of 2.16% as compared with the overall level of the previous year.

With respect to cross-border finance business, the Company proactively adjusted its customer and business structure, reduced and withdrew overcapacity industries and offshore resale transactions and other high-risk businesses, stepped up its efforts to innovate its light-operation products by capitalising on the opportunities arising from the structural development, with a special emphasis on advancing the business development of "Cross-border Zi Ben Tong" (跨境資本通), and upgraded cross-border financial platform. In the first half of 2017, the Company had 54,213 onshore international business customers, representing a year-on-year increase of 1.90%. Onshore international settlements of the Company amounted to USD93.027 billion. The market share of foreign exchange receipts and payments for customers was 2.86%, ranking second among the national small- and medium-sized banks (based on the statistics issued by the State Administration of Foreign Exchange). Affected by the current macro-prudential management policies on foreign exchange, the demand for foreign exchange purchase was suppressed. The foreign exchange settlements in aggregate amounted to USD64.209 billion, representing a year-on-year decrease of 11.03%, with a market share of 3.92%, ranking first among national small- and medium-sized banks.

With respect to offshore business, the Company strove to promote and continued to solidify its business foundation, resulting in a steady growth in its offshore business. As of 30 June 2017, the balance of deposits from offshore customers amounted to USD22.218 billion, representing an increase of 37.90% as compared with the end of the previous year. The balance of loans from offshore customers amounted to USD14.135 billion, representing an increase of 25.01% as compared with the end of the previous year. The quality of the Company's credit assets remained satisfactory with a non-performing loan ratio of 0.18%, down by 0.09 percentage point as compared with the end of the previous year. Our offshore international settlements amounted to USD155.936 billion, representing a year-on-year increase of 15.31%.

Financial institutions business

The Company further deepened comprehensive cooperation with its customer base of financial institutions and enhanced value contribution from its customer base of financial institutions. During the reporting period, the Company maintained business cooperation with 100 securities companies to carry out third-party custody business with the total number of registered customers reaching 8.3884 million as of the end of the reporting period, representing an increase of 8.08% as compared with the end of the previous year; maintained business cooperation with 83 securities companies to carry out margin trading and short selling business with the total number of registered customers reaching 340,600 as of the end of the reporting period, representing an increase of 4.57% as compared with the end of the previous year; and maintained business cooperation with 46 securities companies to carry out share options business with the total number of registered customers reaching 12,200 as of the end of the reporting period, representing an increase of 16.19% as compared with the end of the previous year. The total number of the cross-border interbank RMB accounts of the Company reached 173 in total, ranking first among the national small- and medium-sized banks. The number of customers with indirect connection to the RMB Cross-border Interbank Payment System (CIPS) amounted to 99, ranking first among the national small- and medium-sized banks and second among the industry. The Company has been qualified as a depository bank and as a clearing bank for China Financial Futures Exchange (CFFEX), Zhengzhou Commodity Exchange (ZCE), Dalian Commodity Exchange (DCE), Shanghai Futures Exchange, Shanghai Gold Exchange, Shanghai International Gold Trade Centre, Shanghai Clearing House, Shanghai Insurance Exchange and Shanghai International Energy Exchange, and maintained business cooperation with 101 futures companies in total to carry out bank-futures transfer payment business.

During the reporting period, due to sluggish asset growth, tendency towards stringent regulatory policy and intensified market competition and other impacts, the scale of the Company's financial institutions business was subject to further restrictions, but the Company strove to respond to changes in the market and regulatory policies by proactively adjusting its business structure and optimising the "Zhao Ying Tong (招赢通)" trading platform. As of 30 June 2017, the balance of placements from banks and other financial institutions reached RMB381.375 billion, representing a decrease of 28.96% as compared with the end of the previous year, among which the balance of funds under third-party custody amounted to RMB111.018 billion, representing a decrease of 6.19% as compared with the end of the previous year. The proportion of demand deposits increased by 1.61 percentage points as compared with the end of the previous year to 77.94%, continuing to outperform other national small- and medium-sized banks in terms of volume and proportion of demand deposits. The deposit structure was further optimised. The annualised average cost ratio of the Company's placements from banks and other financial institutions was 1.97%, representing a decrease of 0.28 percentage point as compared with the overall level of the previous year. During the reporting period, our discounted bills transferred to other banks or financial institutions amounted to RMB4,126.737 billion, and our rediscount business with the Central Bank amounted to RMB42.529 billion, representing a year-on-year increase of 31.75%, still ahead of our peers in terms of market share. The volume of cross-border interbank RMB clearing service amounted to RMB344.028 billion, representing a year-on-year decrease of 16.41%. The sales of wealth management products from other financial institutions amounted to RMB693.5 billion, representing a year-on-year decrease of 61.04%. 1,108 financial institutions officially signed the agreement in connection with the "Zhao Ying Tong" platform, and the online business volume was RMB326.463 billion during the reporting period, and the move toward online transaction channel was accelerating.

Investment banking business

During the reporting period, the Company seriously researched and judged the market environment and opportunities, continuously promoted the core competitiveness of the assets portfolio, and proactively built an integrated financial services system for investment banking and commercial banking, with the successful implementation of a series of major projects, the development of investment banking business bucked the trend and the market brand and image was further enhanced. The non-interest income realised a year-on-year increase of 16.84% for the first half of the year.

With respect to our bond underwriting business, faced with the market environment where interest rates fluctuated to rise, the Company took the initiative to cope with such issues. Taking business innovation and key products as the breakthrough of development, the Company successively acted as the lead underwriter for the market's largest single financial bonds, the first single green panda bonds, and the first single green asset-backed notes. In the first half of the year, the amount of lead-underwritten bonds topped RMB131.915 billion, which amounted to a rise of market share for bond financing instruments by 0.43 percentage point as compared with the corresponding period of the previous year, ranking first in the industry in terms of lead-underwritten amounts of financial bonds.

With respect to M&A finance business, faced with the external policy environment where the cross-border M&A was tightened and the regulation of domestic capital market became stringent, the Company focused on listed companies, strengthened the three areas of program design, financial organisation and transaction matching, took the lead to organise a number of domestic and foreign M&A project financing deals of material significance, and acted as financial consultant for a number of industrial restructuring and asset restructuring projects for listed companies. The M&A finance provided for the first half of the year amounted to RMB60.878 billion, representing a year-on-year increase of 54.94%, providing financial support ("financing") and financial consultancy ("wisdom pooling") services for M&A transactions of more than RMB170.0 billion in total value.

With respect to structural financing business, the Company, taking into consideration the current market hotspots, further revised and improved the product system; for bright spot areas such as asset securitisation, industrial investment funds and market transactions (matching services), proactively carried out product innovation. The structural financing provided for the first half of the year amounted to RMB32.539 billion, representing a year-on-year increase of 324.62%, and the amount of market transactions (matching services) exceeded RMB20 billion.

With respect to our equity capital market business, the Company fully participated in the mixed reform of state-owned enterprises of the pilot industry, proactively participated in the investment and financing business of high-quality enterprises in the field of scientific and technological innovation and consumption upgrading, and grasped business opportunities for cooperation with the central government-owned enterprises and further deepened the good cooperative relationship with strategic customers. The integrated financial services for investment banking and commercial banking appeared to be advantageous. The equity investment and financing provided for the first half of the year amounted to RMB5.204 billion, representing a year-on-year increase of 58.37%.

Asset management business

During the reporting period, the wealth management business of the Company maintained a steady development momentum. The Company issued 2,202 wealth management products during the first half of the year and recorded RMB7.47 trillion in the bank-wide sales of wealth management products, representing a year-on-year decrease of 3.74%. As of the end of the reporting period, the balance of wealth management business funds of the Company amounted to RMB2.13 trillion, representing a decrease of 10.50% as compared with the end of the previous year. According to the statistics of CBRC, as of the end of the reporting period, the Company ranked second among commercial banks in terms of the balance of funds obtained from wealth management products and the balance of funds obtained from off-balance-sheet wealth management products.

During the reporting period, in response to the changes in regulatory policy and the hastened retracement of the trajectory of wealth management business back to that of asset management business, the Company drew up plans and carried out self-examination in accordance with the series of circulars and guidance issued by the CBRC and strictly implemented various regulatory requirements in respect of wealth management business on one hand; on the other hand, the Company consolidated the basis of investment management, advanced the net-worth transformation of the product, promoted the return of wealth management business to the original business, and achieved a series of results.

Firstly, the allocation and investment abilities of quality assets portfolio were improved steadily. Aiming to improve the return-on-risk ratio of asset allocation, the Company improved the allocation ability of high quality assets and the investment efficiency of standardised assets. With respect to bond assets, as of the end of the reporting period, the balance of bond invested with wealth management funds of the Company amounted to RMB1,026.997 billion, which was basically the same as compared with the end of the previous year. During the reporting period, the Company seized the investment opportunities brought about by the rising market interest rates, upgraded the investment strategy and adjusted investment structure. With respect to creditor's assets, the asset securitization and asset transfer investment business of the banking credit assets registration and circulation center were steadily promoted. Particularly, with respect to non-standard creditor's assets, the Company made investments in strict compliance with the regulatory guidance. The non-standard creditor's assets were mainly from companies and other financial institutions to which credit line was granted. During the reporting period, through implementation of strict risk management measures, there was no obvious change in our asset quality. With respect to equity assets, the "Tou Rong Tong" (投融通) business tailored for listed companies was developing vigorously, and the direct investment in secondary market shares and non-listed company equity was developing steadily.

Secondly, the management of entrusted investment continued to improve. The Company carried out entrusted bond investment by adhering to the principle of "focusing on proprietary investment while supplemented with entrusted investment". In the first half of the year, in response to the changes in the regulatory policy and the adjustments to bond market, the Company focused on the structural adjustment and risk management of the entrusted bond investment, taking into consideration the investment performance of the entrusted investment institutions and the demand for distribution of wealth management portfolio. On one hand, the share of entrusted investment was adjusted according to the two-dimensional performance of investment returns and risks of financial institutions in cooperation with the Company, and the "survival of the fittest" strategy was implemented. On the other hand, the foundation of risk management of entrusted investment continued to be solidified by focusing on financial institutions in cooperation with the Company and underlying assets as the core, the management of financial institutions in cooperation with the Company was enhanced, and the risk control of underlying assets was reinforced by adhering to the principle of underlying assets penetration, so as to achieve the steady development of entrusted investment business. As of the end of reporting period, the leverage ratio of entrusted bond investment of the Company was 119.42%. The risk exposure was generally controllable.

Thirdly, transformation to net-worth products continued to be promoted. According to regulatory orientation, the Company increased the development and issuance of net-worth products to transfer the return and risk of the products to the customers through the net-worth fluctuations of the products, cultivate investors to bear the mature investment philosophy of sharing returns and risks, and promote the wealth management business to return to its essence of "entrusted by customers and providing wealth management service for them". In the first half of the year, the Company launched the "Ju Yi Sheng Jin "(聚益生金), "Nian Nian Xiang" (年年享), "Wen Jin" (穩金) and other net-worth products. As of the end of the reporting period, the balance of net-worth products amounted to RMB1,611.309 billion, representing an increase of 2.22% as compared with the end of the previous year, and accounting for 75.72% of the balance of wealth management business funds, up by 9.37 percentage points as compared with the end of the previous year.

Asset custody business

In the first half of 2017, the Company's asset custody business developed steadily. As of the end of the reporting period, the balance of assets under custody amounted to RMB10.63 trillion, representing an increase of 4.52% as compared with the end of the previous year; the custody fee income amounted to RMB2.542 billion for the first half of the year, representing a year-on-year decrease of 7.33%; and the number of asset custody projects reached 17,000, representing an increase of 12.39% as compared with the end of the previous year. During the reporting period, the Company continued to carry out the business strategy of technology-led custody business development, the overseas custody business was successfully promoted, the full-cycle online management of custody products was launched, and the functions and business processes of the custody system were continuously optimised. Our professional value-added services were acclaimed by custody customers, and our leading technology has been further recognised by the industry. The Company won the "Best Custodian Bank in China" awarded by "*The Asset*" and other awards. The market influence of our custody business continued to improve.

Financial markets business

In the first half of 2017, affected by the market environment, the bond yields increased substantially; the exchange rate fluctuations in the foreign exchange market declined, customers were less willing to carry out foreign exchange settlements. By adjusting the position structure, reducing bonds exposed to high risks, vigorously carrying out innovative business and implementing other strategies, the Company proactively hedged the market volatility.

With respect to RMB bond investment, the Company flexibly adjusted its strategy of duration based on market trend and proactively adjusted position structure by leveraging market fluctuations. Meanwhile, the Company paid special attention to the liquidity of the investment portfolio, continued to increase holdings of government bonds and policy financial bonds and other high liquidity assets to enhance the liquidity of the investment portfolio. As of the end of the reporting period, the balance of RMB bond portfolio of the Company was RMB829.830 billion, with the portfolio duration of 4.01 years and the portfolio yield of 3.76%.

With respect to foreign currency bond investments, the Company implemented a prudent investment strategy by controlling its investment pace and moderately reducing the duration of its new investments. Meanwhile, the Company proactively participated in the spread transactions of credit bonds and range trading operation and developed secondary market operations and derivative products to realise interest spread gains. As of the end of the reporting period, the balance of foreign exchange investment portfolio of the Company amounted to USD8.619 billion, with the portfolio duration of 1.23 years and the portfolio yield of 2.17%.

With respect to customer transaction business, the Company carried out the inspection of customer transactions business in a comprehensive manner in accordance with the external situation and the need for steady development of its own business as well as the requirements of special management of the regulatory authorities, and continuously optimised internal risk control, and various risk management measures were pragmatic and effective. Meanwhile, the Company focused on sales and marketing of a list of key customers, by strengthening the building of financial market teams in the branches, promoted product innovation, and continuously enhanced customer business. During the reporting period, the trading volume of customer transactions of the Company amounted to RMB840.9 billion, representing a year-on-year increase of 8.10%. Among them, the derivative transaction volume of single customer was RMB271.6 billion, representing a year-on-year increase of 69.33%; the customer transaction intermediary business income amounted to RMB1.580 billion, representing a year-on-year increase of 9.40%.

In the first half of 2017, the trading volume of RMB exchange rate swaps of the Company reached RMB2,436.5 billion, representing a year-on-year increase of 69.46%; the trading volume of RMB-denominated options (including proprietary trading and trading on behalf of customers) reached RMB443.7 billion, the trading volume of RMB options continued to rank first in the whole interbank market (data from the China Foreign Exchange Trade System). In addition, according to the data from the Shanghai Gold Exchange, in the second quarter, the Company ranked first among all interbank gold market makers in terms of overall ranking.

3.10.3 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 more 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 of 30 June 2017, the Company had 136 branches, 1,683 sub-branches, 1 dedicated branch-level operation center (credit card center), 1 representative office, 3,266 self-service centers, 11,708 self-service machines (including 1,753 automatic teller machines and 9,955 deposit-taking and cash withdrawal machines) and 12,153 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 and a representative office in London, the UK; a branch in Singapore; a branch in Luxembourg; a representative office in Taipei.

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 effectively relieved the pressure on physical outlets of the Company. As of the end of the reporting period, the Company's replacement rate of comprehensive service counter by retail electronic channel was 97.75%; the replacement rate of non-cash trading at the visual counter was 61.64%; the replacement rate of online banking transaction settlement was 90.48%.

Mobile banking

The personal mobile banking business of the Company maintained rapid growth in the first half of 2017 as mobile banking customers were increasingly active with an aggregate of 1.44 billion logins in the Bank's mobile banking application during the reporting period, making it the most dynamic e-channel for customers of the Company. As of 30 June 2017, the aggregate number of customers who downloaded the application reached 48.05 million, of which 28.55 million users were active customers for the past year. Meanwhile, the number of APP transactions and volume of mobile payments have been increasing rapidly. In the first half of 2017, the total cumulative number of mobile banking transactions amounted to 3.444 billion, up by 83.88% as compared with that for the corresponding period of the previous year; and the cumulative transaction amount reached RMB9.51 trillion, up by 53.14% as compared with that for the corresponding period of the previous year. The number of APP transactions was 452 million, up by 36.14% as compared with that for the corresponding period of the previous year; and the amount of transactions was RMB8.13 trillion, up by 53.69% as compared with that for the corresponding period of the previous year. Specifically, the number of mobile payment transactions was 2.992 billion, up by 94.16% as compared with that for the corresponding period of the previous year; and the amount of transactions was RMB1.38 trillion, up by 50% as compared with that for the corresponding period of the previous year.

During the reporting period, the Company vigorously promote the strategy of "mobile priority". The Company continued to create and innovate application-based mobile financial services platform and offered customers feature products including income/expenditure record, gold business and ranking of highest income earners so as to actively promote high utilisation rate of the applications and actively implement the financial technology development strategy.

The Company launched the "China Merchants Bank" WeChat Official Account which integrates product functions with current hot issues to facilitate marketing. Product content is enhanced in different facets to increase the brand's popularity among young customer groups so as to help China Merchants Bank establish itself as an innovative and energetic brand. In the first half of 2017, the "China Merchants Bank" WeChat Official Account had accumulated 11,674,800 followers.

Online banking

The online banking business of the Company maintained stable development in the first half of 2017.

As for the retail online banking business, as of the end of the reporting period, the number of active users of the retail online banking professional edition of the Company reached 17,820,000. In the reporting period, the total number of online retail finance transactions was 885 million, representing an increase of 37.42% as compared with the corresponding period of the previous year; the transaction amount reached RMB13.07 trillion, representing a decrease of 15.29% as compared with the corresponding period of the previous year. Specifically, the number of online banking transactions was 246 million, up by 10.31% as compared with the corresponding period of the previous year; and the amount of online banking transactions was RMB12.69 trillion, down by 15.96% as compared with the corresponding period of the previous year; the cumulative number of online payment transactions was 639 million, up by 51.78% as compared with the corresponding period of the previous year; and the amount of online payment transactions was RMB380 billion, up by 15.15% as compared with the corresponding period of 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 of the end of the reporting period, the total number of corporate online banking customers of the Company reached 1,220,500, representing an increase of 11.39% as compared with the end of the previous year. In the reporting period, the number of corporate online banking transactions of the whole Bank was 176,071,300, representing an increase of 88.05% as compared with the corresponding period of the previous year. The transaction amount was RMB51.54 trillion, representing an increase of 5.81% as compared with the corresponding period of the previous year.

Direct banking

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

In the first half of 2017, the Company constantly improved the service capability and customer experience for its direct banking. As a result, the online interactive services accounted for 67.18%, up by 7.4 percentage points as compared with the corresponding period of the previous year; the manual telephone access ratio reached 97.53%; the percentage of manual telephone responses within 20 seconds reached 94.67%; and the customer service satisfaction ratio reached 99.66%. Businesses via visual counters handled daily average of 95,500 transactions per month, with the highest number of single day transactions exceeding 140,000, showing high replacement effect of in-branch non-cash transactions.

In the first half of 2017, the Company continued to facilitate the maintenance of gold card and Sunflower customer base for its direct banking. 1,456,000 customers at gold card and Sunflower level and above have been served, thus effectively reducing the cost of customer maintenance. The Company actively helped with maintenance of quality micro-finance customers; 46,000 micro-finance loans have been renewed; the accumulated number of loans retained was RMB17.795 billion with a retention rate of 82.88%.

3.10.4 IT and R&D

The Company endeavours to develop the IT-based support for the "Light-operation Bank" and innovative leadership, and takes the Fintech-based, innovation-driven approach to promote the management reform and business development of the Company.

With respect to system building, the Company mainly focuses on self-development, quick response and support for business development. In the first half of the year, 2,514 projects have been completed, including: full development of consumer finance, first batch of payment and clearing platform with access to non-bank payment institutions network, fulfilment of Cardless Quick Pay of China UnionPay, China UnionPay QuickPass 2D QR code products, new Flash Loan platform, credit card scenario-based cash loan; development of deep learning computer visual processing capacity, completion of interactive model between mobile customers and customer services manager for the Bank's application, integration of technologies such as big data and geographical positioning for precision marketing and risk control for platform support, restructuring of visual counters, China's first blockchain cross-border payment business in Qianhai Shekou Free Trade Zone which marks the fact that the Company's blockchain technology has entered the application stage; smooth commissioning of the next-generation financial market business system (Murex) which has enhanced service capability of transaction banks, credit card huge capacity diversified authorisation platform being put into operation, upgrading of the system's horizontal expansion and transaction response capacity, development of big credit platform, establishment of full flow risk management system, active planning for development of overseas branch system, completion of overseas credit risk management system, overseas customers relations management system and overseas edition of internet banking for companies and promotion of the development of overseas private banking system.

Besides, the Company attached great importance to optimising IT structure and development of infrastructure, strengthening systematic management for maintenance of system operation, enhancing system operation and maintaining its service capability. At the same time, the Company actively increased the integration and promptness of IT and business, and developed refined R&D management system. During the reporting period, the Company made greater efforts in attracting and fostering hi-tech talents. With the Chengdu Software Center commencing operation, business development of the entire Bank is supported by three software centers in Shenzhen, Hangzhou and Chengdu as well as the data centers in Shenzhen and Shanghai.

3.10.5 Overseas businesses

Hong Kong Branch

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

In 2017, our Hong Kong Branch exploited Hong Kong's advantages as a "bridge-head" for China's foreign trade as well as an international financial center, and took a firm hold of the market opportunities arising from Chinese enterprises "going global" and the "One Belt, One Road" initiative to constantly promote cross-border business coordination, proactively develop the local market and expand its market share. Meanwhile, it further strengthened risk compliance and internal basis management, constantly improved and innovated its product and service systems and strove to explore the asset operation model. As a result, all its businesses achieved healthy development.

During the reporting period, the Hong Kong Branch realized a net operating income of HK$1.467 billion and a profit before tax of HK$1.300 billion.

New York Branch

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

In the first half of 2017, our New York Branch focused on "consolidating the deposit business", "strengthening the asset business" and "expanding the emerging business", resulting in the competitive edge of its cross-border M&A business further expanded and satisfactory performance in project financing, local business in the US, asset management, private banking and financial market.

During the reporting period, our New York Branch realized a net operating income of USD45,642,500 and a profit before tax of USD27,970,700.

Singapore Branch

Established in 2013, our Singapore Branch is positioned as a significant cross-border financial platform in Southeast Asia, striving to provide a basket of premium cross-border financial services to the Chinese companies "going global" and Singaporean companies "being brought in". Its featured products include back to back L/Cs, front to back L/Cs, import bill advance and export bill purchase, loans secured by account receivables, time deposits, accepting guarantees from domestic enterprise as security for loans granted to overseas entity, accepting guarantees from overseas entity as security for loans granted to domestic enterprise, M&A financing, Cross-border Trade Express, entrusted L/C opening and global financing.

During the reporting period, our Singapore Branch took advantage of the opportunities arising from the healthy development of Sino-Singaporean economic and trade relations and actively supported the Chinese enterprises in penetrating the Singaporean and other Southeast Asian markets while helping the Singaporean enterprises thrive in Singapore and China. While focusing on the cross-border financial services and Singapore's local business, it managed to win the compliments of its customers and industrial peers with innovative products and services, with its Private Banking (Singapore) Center officially launched in April 2017.

During the reporting period, our Singapore Branch realised a net operating income of USD7,656,700 and a profit before tax of USD1,344,700.

Luxembourg Branch

Established in 2015, the Luxembourg Branch of the Company is positioned as an important cross-border financial platform in European continent. It provides diversified services including corporate deposits, corporate loans, project financing, trade financing, M&A financing, M&A advisory, bond underwriting and asset management for the Chinese enterprises going overseas and the enterprises brought in from Europe. It is committed to establishing a private banking platform of the Company in Europe on the basis of the superior businesses of the parent bank combined with the special advantages of Luxembourg.

In the first half of 2017, our Luxembourg Branch exploited the opportunities arising from the Chinese enterprises staging overseas mergers and acquisitions and bond issuance and achieved rapid business growth by strengthening its cooperation with domestic and overseas banks and financial institutions. During the reporting period, our Luxembourg Branch realized a net operating income of €4,544,900 and a profit before tax of €1,892,300.

London Branch

Established in 2016, our London Branch mainly focuses on corporate banking business and provides customers with diversified corporate banking products and services, such as deposits, loans (including bilateral loans, syndicated loans, trade finance and cross-border M&A financing), settlement and asset custody. It also engages in interbank transaction of funds, bonds and foreign exchange trading, and conducts funds clearing and asset transfer with other financial institutions.

For more than a year since its launch, our London Branch has initially established a governance structure, compliance culture, risk control and financial management system that meets the regulatory requirements of the Head Office and local authorities. While maintaining its focus on serving the Chinese enterprises "going global", it gradually penetrated the local markets, strengthened its management, exercised strict control over the risks and encouraged technical development and innovation, resulting in smooth progress of all its operations.

During the reporting period, the London Branch realised a net operating income of USD6,116,400 and a profit before tax of USD128,500.

3.10.6 Wing Lung Group

Founded in 1933, Wing Lung Bank has a registered capital of HK$1.161 billion as at 30 June 2017, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of Wing Lung Bank and its subsidiaries comprise deposit-taking, lending, investment and wealth management, credit cards, online banking, documentary bills, leasing and hire purchase loans, foreign exchange, 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 34 banking offices in Hong Kong, 4 branches and sub-branches in Mainland China, one branch in Macau, and three overseas branches, located respectively in Los Angeles and San Francisco, the United States and the Cayman Islands. As at 30 June 2017, the total number of employees of Wing Lung Group is 1,849.

For the period ended 30 June 2017, profit attributable to the shareholders of Wing Lung Group was HK$1.919 billion, representing an increase of 4.25% as compared with the corresponding period of the previous year. It recorded a net interest income of HK$1.760 billion in the first half of 2017, representing an increase of 5.95% as compared with the corresponding period of the previous year. The net interest margin was 1.39%, down by 11 basis points as compared with the corresponding period of the previous year. The net non-interest income was HK$1.162 billion, representing a decrease of 13.79% as compared with the corresponding period of the previous year. The cost-to-income ratio for the first half of 2017 was 31.63%, representing a decrease of 0.97 percentage point as compared with the corresponding period of the previous year. The non-performing loan ratio (including trade bills) was 0.32%.

As at 30 June 2017, the total assets of Wing Lung Group amounted to HK$315.237 billion, representing an increase of 17.78% as compared with the end of 2016. Total equity attributable to shareholders amounted to HK$31.234 billion, representing an increase of 6.63% as compared with the end of 2016. Total loans and advances to customers (including trade bills) amounted to HK$159.823 billion, representing an increase of 10.79% as compared with the end of 2016. Deposits from customers amounted to HK$221.781 billion, representing an increase of 20.37% as compared with the end of 2016. The loan-to-deposit ratio was 65.07%, down by 7.94 percentage points as compared with the end of 2016. In the first half of 2017, Wing Lung Group issued undated additional Tier-1 capital securities with a nominal value of USD170 million. As at 30 June 2017, the common equity Tier-1 capital ratio of Wing Lung Group was 11.04%, its Tier-1 capital ratio was 13.18% and its total capital ratio was 15.57%. The average liquidity maintenance ratio for the reporting period was 41.54%, all above regulatory requirements.

For detailed financial information on Wing Lung Group, please refer to the 2017 interim results of Wing Lung Bank, which is published on the website of Wing Lung Bank (www.winglungbank.com).

3.10.7 CMB Financial Leasing

CMB Financial Leasing is one of the five pilot bank-affiliated financial leasing firms approved by the State Council. 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, revitalization of assets, balancing of tax liabilities and improvement of financial structure. CMBFL also provides new financial leasing services such as capital and commodity finance, asset management and financial advisory.

As at 30 June 2017, CMBFL had a registered capital of RMB6.0 billion and 241 employees; its total assets amounted to RMB149.819 billion, up by 9.36% as compared with the end of the previous year; its net assets amounted to RMB14.779 billion, up by 7.31% as compared with the end of the previous year. In the first half of 2017, CMBFL achieved a net profit of RMB951 million, representing an increase of 6.02% as compared with the corresponding period of the previous year[2].

3.10.8 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 asset management, wealth management, investment banking and stock trading.

As at 30 June 2017, CMBIC had a registered capital of HK$4.129 billion and 301 employees; its total assets amounted to HK$11.118 billion, representing an increase of 30.55% as compared with the end of the previous year; its net assets amounted to HK$6.791 billion, representing an increase of 6.66% as compared with the end of the previous year. In the first half of 2017, CMBIC recorded a net profit of HK$249 million, representing an increase of 54.66% as compared with the corresponding period of the previous year[3].

3.10.9 China Merchants Fund

CMFM is the first Sino-foreign fund management company established with the approval of CSRC. Established on 27 December 2002, CMFM had a registered capital of RMB210 million. As at the end of the reporting period, the Company had 55% of equity interests in CMFM. The scope of business of CMFM covers fund establishment, fund management and other operations approved by the CSRC.

As at 30 June 2017, CMFM's total assets amounted to RMB4.366 billion, up by 12.41% as compared with the end of the previous year; its net assets amounted to RMB2.503 billion, up by 31.46% as compared with the end of the previous year. It had 335 employees (not including employees from its subsidiaries). The total size of the asset management business of CMFM amounted to RMB1,046.344 billion. In the first half of 2017, CMFM realised a net profit of RMB421 million, representing an increase of 33.23% as compared with the corresponding period of the previous year.

2 In 2016, CMBFL acquired CMB International Leasing Management Limited, a subsidiary of CMBIC, and as a result, its net profit for the first half of 2016 was adjusted to RMB897 million.

3 In 2016, CMBIC integrated Wing Lung Securities and Wing Lung Futures, two subsidiaries of Wing Lung Bank, and accordingly, its net profit for the first half of 2016 was adjusted to HK$161 million.

3.10.10 CIGNA & CMB Life Insurance

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

As at 30 June 2017, CIGNA & CMB Life Insurance had a registered capital of RMB2.8 billion and a workforce of 2,674 employees; its total assets of RMB32.244 billion, representing an increase of 18.83% as compared with the end of the previous year; its net assets amounted to RMB4.338 billion, representing an increase of 6.17% as compared with the end of the previous year. As at 30 June 2017, CIGNA & CMB Life Insurance realised a net profit of RMB215 million, representing an increase of 25.73% as compared with the corresponding period of the previous year.

3.11 Risk Management

The Company, through transforming itself into a "Light-operation Bank", stepped up the construction of a risk management system focusing on risk-adjusted value creation under the principles of "Comprehensive, Professional, Independent and Balanced Management". The Risk and Compliance Management Committee of the Head Office is responsible for reviewing and deciding the most significant bank-wide risk management policies on risk appetite, strategies, policies and authorisations approved by the Board.

In the first half of 2017, 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 37 to the financial statements.

3.11.1 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, investment and financing business at different authorisation levels. The decision-making entities include: the Risk and Compliance Management Committee, the Loan Approval Committee of the Head Office, the Investment Banking and Asset Management Committee of the Head Office, the Special Loan Approval Committee of the Head Office and the Restructuring-Loan Approval Committee of the Head Office, as well as the Risk Control and Compliance 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 regulatory 5-category classification, the Company divided risk assets into different categories under an internal 10-category classification system. The classification of a risk asset may be initiated by a relationship manager or a risk control officer and then reviewed by risk management departments of the Head Office and our branches according to their respective authorisation.

In the first half of 2017, the Company kept abreast of the macroeconomic and financial development and adhered to its management philosophy of "Quality Goes First Based on Compliance and Risk Control (合規為根、風險為本、質量為先)" while conducting overall planning, making breakthroughs in key areas and steadily advancing the transformation of its risk management from seeking "temporary treatments" to imposing "final solutions", aiming to establish itself as a "leading risk management bank".

Firstly, improving and completing the concentrated risk management mechanism while strengthening the comprehensive risk management. The Company has been improving its risk management organization structure and enhancing its risk management specialty and independence while optimising the risk preference conveyance and management mechanism, strengthening the "penetrating" management principle based on the cross-over financial risk prevention and control, and further strengthening its comprehensive risk management. **Secondly, optimising the asset portfolio configuration while making dynamic adjustment to its asset structure.** While adhering to its asset portfolio configuration objectives, the Company has been making dynamic adjustment to its regional credit policy and actively supporting the national major strategies and key projects. Through strict implementation of the customer list management at the Head Office and its branches for strategic customers and industrial customers which should be compressed and expelled and adopting a differential management strategy, the Company has been constantly consolidating its customer base. **Thirdly, strengthening risk screening and follow-up in the key areas while enhancing the sensitivity and forward-lookingness of risk identification.** The Company conducted careful screening of risks in respect of the major corporate customers, adjusted the list of customers subject to early warning and specified control measures for each and every customer. It has also established a risk quick reporting mechanism for timely reporting of new large non-performing assets, risks and major emergencies. **Fourthly, optimising the portfolio of non-performing assets while improving the management of non-performing assets.** The Company has been vigorously promoting the securitized disposal of non-performing assets with aggressive clearing and collection of non-performing assets in cash while actively promoting the write-off of non-performing assets, prudently promoting the healthy restructuring of risky customers and continuously improving its non-performing assets management capacity with multiple approaches. **Fifthly, consolidating the management foundation while comprehensively promoting the whole-process credit optimisation.** By sorting out and optimising such key processes as pre-loan investigation, credit approval, credit implementation, credit withdrawal and post-credit management, the Company has reconstructed its credit process management system and completed the supporting system revision and authorisation adjustment. **Sixthly, steadily improving the level of quantified tools for risk management.** The Company explored the use of new technologies to drive the credit process and improve the automation, process, specialization and concentration of its credit operation while promoting project development and optimisation such as risk rating and early warning models, aiming to further enhance the practicability and accuracy of the Company's quantified risk management tools.

During the reporting period, the Company, facing complicated economic environment at home and abroad, accelerated transformation of risk management and further adjusted asset structure, with the non-performing loans further reduced. In addition, thanks to the comprehensive countermeasures including accelerated collection, writing off and transfer of non-performing loans, and asset securitization, the asset quality had been effectively controlled.

3.11.2 Country risk management

Country risks represent the risks of economic, political and social changes and developments in a country or region that may cause borrowers or debtors in that country or region to be unable or unwilling to 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, nationalization 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, uses its sovereign rating model to set limit on its country risk with reference to the external rating results, and evaluates its country risk and makes provisions on a quarterly basis. As at 30 June 2017, the assets of the Company exposed to the country risk remained insignificant, and 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.

3.11.3 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 Company is exposed to market risk through the financial instruments on the trading book and banking book, interest rate and foreign exchange rate are the two major market risk factors relevant to the Company.

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. The Company has set up its market risk governance framework for trading book, covering interest rate risk, foreign exchange risk and commodity price risk and specifying the roles, responsibilities and reporting line of the Board of Directors, senior management, designated committees and relevant departments, which can ensure the effectiveness of the market risk management for trading book. The Company has established market risk limits management framework, covering the interest rate risk, foreign exchange rate risk and commodity price risk under the trading book. Within this framework, the highest level indicators (or limits), which are also the trading book market risk preference quantitative indicators (or limits), adopt VaR and portfolio stress testing loss indicators and directly link to the Group'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. The trading book market risk management is carried out by the Market Risk Management Department under the Risk Management Department. The Audit Department is responsible for auditing.

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. The Company formulated and implemented the principle of supervisory duty segregation in line with its trading book market risk management policies, and established a trading book market risk management framework under which the roles, responsibilities and reporting lines of the Board of Directors, senior management, designated committees and relevant departments in the banking book market risk management were clearly defined. The Company has also established a banking book-related market risk limits management and authorisation system based on the risk management structure, which is managed by the Asset and Liability Management Department. The Audit Department is responsible for auditing.

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 overall income and market value of financial instruments and positions held by the Company.

(1) Trading book

The Company uses various risk indicators, including volume indicators, market risk value indicators (VaR, covering various interest rate risk factors relating to trading book business), interest rate stress testing loss indicators, interest rate sensitivity indicators and accumulative loss indicators, to measure and manage the interest rate risk of trading book. The interest rate risk factors used for risk measurement cover all businesses under the trading book, and are comprised of around 100 yield curves of interest rates or bonds. VaR includes general VaR and stress VaR, which are both calculated using the historical simulation model and adopt a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. The interest rate stress testing scenario includes the parallel move, steep move and twisted change of interest rates at various degrees and various unfavorable market scenarios designed on the characteristics of investment portfolios. Among which, the extreme interest rate scenario may move up to 300bp and cover the unfavorable conditions of extreme market. Major interest rate sensibility indicator reflects the change in market value of bonds and interest rate derivatives when an interest rate fluctuates unfavorably by 1bp. As for daily risk management, the scope of authorisation and the market risk limits for the interest rate risk businesses under the trading book are set in accordance with the risk appetite, operation plan and risk prediction of the Board of Directors at the beginning of the year for which the market risk management department is responsible for daily monitoring and continuous reporting.

In the first half of 2017, the development trend of the bond market returns was affected by the dual effect of monetary policy and regulatory policy, as a result of which the yield for the first quarter was generally fluctuating within the range, while that for the second quarter increased rapidly. Starting from mid-May, the yield curve showed a flattening trend. In the first half of 2017, as the bond market price fluctuated and dropped, the Company adopted a defensive strategy with its RMB bond portfolio for trading book, and made dynamic adjustments to the products and duration in response to the market changes, so as to keep the interest rate risks for trading book within the target range.

(2) Banking book

The Company mainly adopts the re-pricing gap analysis, duration analysis, benchmark correlation analysis, scenario simulation and other methods to measure and analyze interest rate risk of banking book on a monthly basis. The re-pricing gap analysis mainly monitors the distribution of re-pricing duration and mismatch of assets and liabilities; the duration analysis monitors the duration of major product types and the change in the duration gap of assets and liabilities of the whole bank; the benchmark-correlated analysis assesses the benchmark risk existing between different pricing benchmark interest rate curves, as well as between the different duration points on each of such curves based on the benchmark correlation coefficients calculated using our internal models; the scenario simulation is the major approach for the Company to conduct interest rate risk analysis and measurement, which comprise a number of ordinary scenarios and stress scenarios, including the interest rate benchmark impact, the parallel move and the change in the shape of yield curves, the extreme changes in interest rates over the past decade, the most possible changes in interest rates in the future as judged by experts and other scenarios. The net interest income (NII) for the future one year and the changes in economic value (EVE) indicator are calculated through simulation of the scenario of changes in interest rates. The NII fluctuation ratio and the EVE fluctuation ratio of certain scenarios are included into the interest rate risk limit system of the whole bank.

Stress test is a form of scenario simulation used to assess the changes in NII and EVE indicators when there is an extreme fluctuation in interest rates. The Company conducts stress test on interest rate risk of banking book on a monthly basis. The results of stress test for the first half of 2017 showed that the interest rate risk of banking book of the Company was generally stable with various indicators staying within the limits and early warning values.

The Company has formulated the principles for risk control at different interest rate risk levels. Based on the risk measurement and monitoring results, the Company will propose the corresponding risk management policy at the regular meetings of the assets and liabilities management committee and through the reporting mechanism, and the Assets and Liabilities Management Department is responsible for its implementation. The major measures for risk management include the adjustment in business volume, duration structure and interest rate structure of on-balance sheet asset and liability business and the utilization of off-balance sheet derivative tools to offset risk exposure.

The Company measures and monitors interest rate risk of banking book through the asset and liability management system. Major models and parameter assumptions used in the course of measurement shall be verified independently by the Risk Management Department before official use and shall be reviewed and verified regularly upon official use.

In the first half of 2017, the benchmark interest rate of deposit and loan of the People's Bank of China remained unchanged, with the market interest rate fluctuating wider. The Company closely monitored the change of external interest rate environment and conducted in-depth analysis and forecast on the market interest rate development through macro-modeling while making timely adjustment to the strategy and strength of the proactive management of interest rate risks and optimising the structure of assets and liabilities, as a result of which the bank account-related interest rate risks were confined at a relatively low level.

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 adverse movement in exchange rate. The Company's functional currency is RMB.

(1) Trading book

The Company has established the market risk (including exchange rate risk) management structure and system of trading book to implement centralized 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 risk indicators such as risk exposure indicator, market risk value indicator (VaR, covering risk factors such as foreign exchange rate related to the trading book business), the loss indicator for exchange rate scenario stress test, exchange rate sensitivity indicator and accumulated loss indicator to conduct risk measurement and daily management. As for risk measurement, the selected exchange rate risk factor is applied on spot and forward prices in all transaction currencies under the Trading Book. Market value risk indicators comprise general market value at risk and stress market value at risk, and are calculated using historical simulation based on a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. Exchange rate stress test scenarios cover 5%, 10%, 15% or more adverse changes in each of transaction currency against RMB, increased volatility of foreign exchange options. Major exchange rate sensitivity indicators are Delta, Gamma and other indicators for exchange rate derivatives. For daily management, we set limits on authority associated with exchange rate risks under the trading book and relevant market exposure at the beginning of the year according to the risk appetite, business planning and risk forecast of the Board, and delegated the Market Risk Management Department to perform daily monitoring and on-going reporting.

In the first half of 2017, the volatility of the RMB exchange rate mitigated and stabilised as a result of the gradual stabilisation of the domestic economy, the weakening of the US dollar index and the adjustment to the formation mechanism of the RMB central parity rate. Against such a background, the Company exerted proper control over the exposure of the self-operated foreign exchange business, especially the directional exchange rate exposure, to snatch profits through spread and swap transactions. Due to the adjustments to the foreign exchange policies for both businesses and individuals in the first half of 2017, the scale and profits of our foreign exchange trading business on behalf of customers decreased slightly as compared with the corresponding period of the previous year.

(2) Banking book

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

The data for measurement of exchange rate risk of banking book of the Company was derived mainly from database, and the Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, and other methods for measurement and analysis. The foreign exchange exposure measurement primarily uses the short-sided method and the correlation approach; scenario simulation and stress test analysis are two important exchange rate risk management tools of the Company for managing foreign exchange rate risk in respect of fluctuation of all currency exchange rates, including the standard scenario, historical scenario, forward scenario and stress scenario. Based on the forward exchange rate fluctuation and the scenario of extreme fluctuations over the past decade, each scenario could simulate the impact on the Company's profit or loss. The effects of certain scenarios on the profit and loss and its percentage to net capital as a limit indicator are taken as reference in the daily management. The Company conducts back-testing and assessment on relevant model parameters on a regular basis to verify the effectiveness of measurement models.

The Company regularly measures and analyses foreign exchange exposure of banking book and scenario simulation results, monitors and reports exchange rate risk on a monthly basis under its quota limit framework, and adjusts its foreign exchange exposure accordingly based on the trend of foreign exchange movements, so as to mitigate the relevant foreign exchange risk of banking book. At present, the exchange rate risk of the Company is generally stable with all the core limit indicators, general scenario and stress testing results satisfying the regulatory limit monitoring requirement. The Audit Department of the Company is responsible for overall auditing of our exchange rate risk.

During the reporting period, the Company paid close attention to exchange rate movements, took initiative to analyze the impact of exchange rate changes in light of the macroeconomic conditions at home and abroad, and proposed a balance sheet optimisation program as a reasonable reference for the management's decision-making. In the face of the new international economic landscape in 2017, the Company strengthened its analysis of the macro-economy in the United States and further optimised measurement of the bank account-related exchange risks, providing a scientific reference for the management's decision-making. In the future, the Company will continue to monitor international economic development and exchange rate movements closely, strengthen exchange rate risk monitoring of banking book and limit authority management to ensure that risks are kept within reasonable limits.

3.11.4 Operational risk management

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company took various actions. Firstly, we further optimised the operational risk management tools. Based on the current operational risk management during the reporting period, the Company adjusted the assessment method and organisational structure of operational risk, improved the economic capital allocation indicator system for operational risk by making further adjustments. Secondly, the Company conducted various operational risk assessments. Focusing on its major and key businesses, the Company adopted five approaches, namely trigger assessment, open assessment, questionnaire assessment, routine assessment, and the assessment on new products and businesses, to carry out an in-depth analysis and a comprehensive assessment from various perspectives including personnel, structure, risk management, rule-making and system building. Thirdly, the Company tightened its control over manual business operations, monitored the launch of the manual operation business of the whole Bank. Fourthly, the Company strengthened the management of outsourcing-related risk, business continuity and IT risk. The Company carried out risk inspections on outsourced products of the whole Bank, conducted prudent review on the demands for new outsourcing products, completed the impact analysis on the business continuity of the whole Bank and optimised the IT risk indicator monitoring system.

3.11.5 Liquidity risk management

Liquidity risk is the risk where the Company is unable to raise sufficient funds on a timely basis or at reasonable costs to settle liabilities as they fall due, perform other payment obligations and satisfy the funding demand for its normal business development.

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.

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 Board of Directors shall accept the ultimate responsibility for liquidity risk management, ensure the Company can effectively identify, measure, monitor and control liquidity risk and are responsible for determining liquidity risk level which the Group can withstand. The Risk and Capital Management Committee under the Board of Directors shall discharge responsibilities in liquidity risk management on behalf of the Board of Directors. The Board of Supervisors shall be responsible for the supervision and assessment on the duty performance of the Board of Directors and the senior management in liquidity risk management and to report to the shareholders' general meeting. The senior management (being the Executive Office of President of the Head Office) shall be responsible for the concrete management work relating to liquidity risk and developing a timely understanding of changes in liquidity risks, and shall report the same to the Board of Director. Assets and Liabilities Committee (ALCO) shall, under the authority of the senior management, perform part of the duties of the Executive Office of President of the Head Office on its behalf and exercise the corresponding liquidity risk management functions. The Assets and Liabilities Management Department of the Head Office is a day-to-day working body of ALCO, and shall be responsible for various concrete management work including formulating policies and procedures relating to liquidity risk management and conducting qualitative and quantitative analysis of liquidity risk. The Audit Department of the Head Office shall perform duties in respect of audit work of liquidity risk management, and conduct comprehensive audit on the Company's liquidity risk management.

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. Specifically, the Company adopts information outsourced from Wind, Reuters and other systems as its external liquidity indicators, and uses self-developed liquidity risk management system to measure its internal liquidity indicators and cash flow statements.

The Company regularly carries out stress tests to find out whether the Company is able to meet liquidity requirements under extreme circumstances. In addition to the annual stress tests required by the regulatory authorities, the Company conducts stress tests on the liquidity risk associated with domestic and foreign currencies on a monthly basis. In addition, the Company has put in place liquidity contingency plans and organized regular liquidity contingency drillings to guard against any liquidity crisis.

In the first half of 2017, with market liquidity at an overall stable level, and under the background of financial deleverage and US interest hike, the central bank adopted a more sound monetary policy and more accurate adjustments which focused on clipping peaks and filling valleys, so as to maintain overall stable market liquidity. The liquidity of the Company was basically in line with that of the market, and overall liquidity was relatively stable due to steady growth in deposits from customers and the progressive investment of assets. As at the end of June 2017, the Company's liquidity coverage ratio was 106.10%[4], representing 26.10 percentage points higher than the minimum requirement of CBRC. Stress tests[5] conducted for local currency and foreign currencies at light, medium and heavy levels all reached their respective minimum sustainable requirements of no less than 30 days, leading to a better contingency buffer capacity for both local currency and foreign currencies.

In response to the market environment and the liquidity profile of the Company, the Company implemented the following measures to enhance liquidity management. Firstly, the Company optimised its asset structure, controlled the progress of granting of corporate loans, so as to realise the steady operation of corporate loans of the whole Bank. Secondly, the Company promoted the steady increase of its core liabilities, and strengthened the exploration of deposits. Thirdly, the Company strengthened its management of active liability taking by flexibly conducting short-, medium- and long-term active liability taking according to its own liquidity profile and market interest rate trend, including issuance of negotiable interbank certificates of deposits and certificates of large-amount deposits, and launched the issuance of financial debts to raise long-term funds as the appropriate opportunities arose. Fourthly, the Company enhanced its research and judgment in macro-economy, through macro analysis and quantitative modeling, the Company made pre-judgment in benchmark interest rate and statutory deposit reserve published by the Central Bank and the market interest rate, and enhanced the pre-management of liquidity of the whole Bank by the treasurer. Fifthly, the Company enhanced the monitoring and management of fund gap, established financing capability assessment mechanism, and further lengthened the monitoring period of fund gap for the whole Bank.

As at the end of June 2017, 15% (2016: 15%) of the total RMB deposits and 5% (2016: 5%) of the total foreign currency deposits of the Company were required to be placed with the PBOC.

4 Liquidity coverage ratio is an external regulatory indicator – the legal person calibre
5 The stress test is the Company's internal management indicator – the domestic calibre

3.11.6 Reputational risk management

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

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

During the reporting period, the Company further improved its reputational risk management system, continuously strengthened the assessment and pre-risk management of reputational risk, and increased the speed in responding to public opinions, thereby effectively preventing material adverse impact to our reputation. At the same time, the Company further promoted the proactive news schemes, expanded its media channels, and enriched forms of propagation, thereby creating a good public opinion environment for the innovation and development of the Company.

3.11.7 Compliance risk management

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

During the reporting period, the Company proactively adapted to the adjustments in regulatory policies, positively addressed the significant changes in financial situations and risk control. Through the promotion of implementation of the following internal compliance management measures, the Company further established a long-term mechanism to improve its internal compliance management: the Company formulated and carried out Guiding Opinions for 2017 Internal Control and Compliance Work of the Bank to implement the management concept and working requirements of the Head Office throughout the whole Bank; completed a series of special rectification works assigned by the CBRC in a timely manner and following the exact steps, and submitted the relevant reports on time; strengthened the understanding of polices and the circulation and delivery of new regulations, identified and assessed the compliance risks associated with new products, new businesses and major projects, and supported value innovation on the premise of legal compliance; in combination with the structural reform, promoted the implementation of "permanent solution" for internal compliance management, standardised the duty performance list for internal compliance, accelerated the standardisation of legal compliance management; fully implemented the record and registration for non-compliance behaviours of staff, implement quantitative management for slight non-compliances of staff; actively promoted compliance training with various levels, carried out compliance information-sharing in a timely manner, continuously created a good compliance environment; continuously enhanced the management efficiency of supervision and inspection and rectification of issues to ensure the effectiveness and seriousness of internal control and compliance.

3.11.8 Anti-money laundering management

The Company has established a relatively sound anti-money laundering internal control system. The Company has formulated a full set of anti-money laundering management system based on the requirements of relevant laws and regulations on anti-money laundering and according to its own actual conditions. It has also developed and launched a comparatively sound anti-money laundering system and established a dedicated anti-money laundering team to carry out anti-money laundering compliance management, anti-money laundering name-list screening and the monitoring of suspicious transactions.

In the first half of 2017, the Company formulated the Reporting and Management Measures for Large-amount Transactions and Suspicious Transactions of China Merchants Bank (《招商銀行大額交易和可疑交易報告管理辦法》), reformed its anti-money laundering system, implemented new reporting standards and reporting procedures, and monitored suspicious transaction accounts. Meanwhile, the Company continued to fulfill its international obligations, resolutely implement relevant resolutions of the UN Security Council on economic sanctions and anti-terrorism financing.

3.12 Profit Appropriation

The profit appropriation plan for 2016

The profit appropriation plan of the Company for 2016 was considered and approved at its 2016 Annual General Meeting held on 26 May 2017.

As stated in the audited financial statements of the Company for 2016, 10% of the profit after tax of RMB56.990 billion, equivalent to RMB5.699 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the risk assets, equivalent to RMB3.102 billion, was appropriated to the general reserve. Based on the then total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company declared a cash dividend of RMB0.74 (tax included) for every share to all shareholders of the Company whose names appear on the register, payable in Renminbi for holders of A Shares and in Hong Kong Dollars for holders of H Shares. The retained profits will be carried forward to the next year. In 2016, the Company did not transfer any capital reserve into share capital.

The Board of Directors of the Company has already implemented the above-mentioned dividend appropriation plan. For further information, please refer to the relevant announcement(s) published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, respectively.

Interim Dividend Appropriation for 2017

The Company would not distribute interim dividend for the first half of 2017, nor would it transfer any capital reserve into share capital (for January-June 2016: nil).

3.13 Social Responsibility

In 2017, adhering to the social responsibility philosophy of "committing to sustainable finance, enhancing sustainable value and contributing to sustainable development", the Company will continue to improve social responsibility management mechanism, fully communicate with stakeholders, fulfill corporate social responsibility and make contributions to the sustainable development of our economy and society. During the reporting period, the Company continuously supported the development of Wuding County and Yongren County in Yunnan by organising its employees to make donations including cash and necessities, carried out the "User Guide for Safety Payment of Bank Cards" campaign and attached great importance to the service designed to protect the interest of financial consumers. The Company also continuously advocated the idea of "monthly donation" and "happy donation" and promoted public charity from everybody.

By Order of the Board
Li Jianhong
Chairman of the Board of Directors
18 August 2017

IV Important Events

4.1 Purchase, sale or repurchase of listed securities of the Company

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

4.2 Disciplinary actions imposed on the Company, directors, supervisors and senior management

So far as the Company is aware, during the reporting period, none of the Company, its directors, supervisors or senior management was subject to investigation by relevant authorities or mandatory measures imposed by judicial organs or disciplinary inspection authorities. None of them had been referred or handed over to judicial authorities or prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor had they been prohibited from engagement in the securities markets, determined as unqualified, or publicly censured by any stock exchange. The Company has not been penalised by other regulatory bodies which have significant impact on the business of the Company.

4.3 Explanation about the integrity profile of the Company

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

4.4 Significant connected transactions

4.4.1 Overview of connected transactions

A majority of the continuing connected transactions of the Company met the de minimis exemption and the non-exempt continuing connected transactions fulfilled the reporting and announcement requirements under the Hong Kong Listing Rules.

4.4.2 Non-exempt continuing connected transactions

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company were those conducted by the Company with CMFM and its associates (hereinafter referred to as "CMFM Group"), CM Securities and its associates (hereinafter referred to as "CM Securities Group") and Anbang Insurance Group Co., Ltd. and its associates (hereinafter referred to as "Anbang Insurance Group"), respectively.

On 13 December 2016, with the approval of the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with CMFM Group for the year of 2017, 2018 and 2019 would be RMB2.5 billion, RMB3.8 billion and RMB5.8 billion. On 28 April 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 CM Securities Group for the year of 2015, 2016 and 2017 would be RMB500 million, respectively. 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. On 24 August 2016, with the approval of the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with Anbang Insurance Group for the year of 2016 and 2017 were adjusted from RMB1.2 billion to RMB1.5 billion. Further details were disclosed in the *Announcements on Continuing Connected Transactions* issued by the Company on 28 April 2015, 16 June 2015, 24 August 2016 and 13 December 2016 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.

At the end of reporting period, the Company and CM Securities held 55% and 45% of the equity interest in CMFM respectively. CMFM is a connected person of the Company under the Hong Kong Listing Rules.

On 13 December 2016, the Company entered into a Service Cooperation Agreement with CMFM for a term commencing on 1 January 2017 and expiring on 31 December 2019. The Agreement was entered into on normal commercial principles after an arm's length negotiation. The 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 with the Company under the Agreement.

The annual cap for the continuing connected transactions between the Company and CMFM Group for 2017 was RMB2.5 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 30 June 2017, the amount of the continuing connected transactions between the Company and CMFM Group was RMB736 million (unaudited).

CM Securities Group

The third-party custody business, the asset management plan 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.

At the end of reporting period, China Merchants Group indirectly held 29.97% of equity interest in the Company (by way of equity interests held, right of control or relationship of parties acting in concert), as China Merchants Group also indirectly held 44.09% equity interest in CM Securities, pursuant to the Hong Kong Listing Rules, CM Securities Group is a connected person 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 normal market prices.

The annual cap for the continuing connected transactions between the Company and CM Securities Group for 2017 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 30 June 2017, the amount of the continuing connected transactions between the Company and CM Securities Group was RMB111 million (unaudited).

Anbang Insurance Group

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

As at the end of the reporting period, Anbang Property & Casualty Insurance Company Ltd. is one of the Company's substantial shareholders. Anbang Insurance Group Co., Ltd. held 97.56% of the equity interest in Anbang Property & Casualty Insurance Company Ltd., and indirectly held over 10% equity interest in the Company. According to the Hong Kong Listing Rules, Anbang Insurance Group is a connected person of the Company.

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

On 24 August 2016, with the approval of the Board of Directors of the Company, the Company announced that the annual caps for the continuing connected transactions with Anbang Insurance Group for the year of 2017 were adjusted from the previously approved RMB1.2 billion to RMB1.5 billion, 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 30 June 2017, the amount of the continuing connected transactions between the Company and Anbang Insurance Group was RMB651 million (unaudited).

4.5 Material litigations and arbitrations

Several lawsuits were filed during daily operation of the Company, most of which were filed for the purpose of recovering of the non-performing loan. As at 30 June 2017, the number of pending litigation and arbitration cases in which the Company was involved totalled 234 with a total amount of principal and interest of approximately RMB1.018 billion. The Company believed that none of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

4.6 Material contracts and their performance

Significant events in respect of holding in custody, contracting, hiring or leasing of assets

During the reporting period, the Company did not have any material contract involving holding in custody, contracting or hiring or leasing of any assets of other companies by the Company or vice versa which was entered into beyond the normal business scope of the Bank.

Significant guarantees

Guarantee business falls within the Company's ordinary course of business. During the reporting period, save for the financial guarantees entered into in our normal business scope approved by the CBRC, there was no other significant discloseable guarantees.

4.7 Use of funds by related parties

So far as the Company is aware, during the reporting period, neither the substantial shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through (among others) any related transactions which were not entered into on an arm's length basis.

4.8 The engagement of accounting firms for 2017

Upon the approval at the 2016 Annual General Meeting of the Company, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic accounting firm of the Company and its domestic subsidiaries for 2017 and engaged Deloitte Touche Tohmatsu Certified Public Accountants, an overseas member of Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international accounting firm of the Company and its overseas subsidiaries for 2017. The term of the above engagements will be one year. For further details, please refer to the documents for 2016 Annual General Meeting and relevant announcements regarding the resolutions of the Company.

4.9 Review of interim results

Deloitte Touche Tohmatsu, being the external auditor of the Company, has reviewed the interim financial report of the Company prepared in accordance with the disclosure requirements of the International Accounting Standards and the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of Directors of the Company has also reviewed and approved the interim results and financial report of the Company for the period ended 30 June 2017.

4.10 Publication of interim report

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

The Company also prepared the interim report in Chinese in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for interim reports, which are available on the websites of Shanghai Stock Exchange and the Company.

V Changes in Shares and Information on Shareholders

5.1 Changes in shares of the Company during the reporting period

		31 December 2016		Changes in the No. of shares during the reporting period	30 June 2017	
		No. of shares	Percentage (%)	No. of shares	No. of shares	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 207,524 shareholders, including 170,781 holders of A Shares and 36,743 holders of H Shares. Neither the holders of A Shares nor the holders of H Shares are subject to trading moratorium. The Company did not issue any internal staff shares.

Based on the publicly available information and so far as the Company's directors were aware, as at 30 June 2017, the Company had met the public float requirement of the Hong Kong Listing Rules.

5.2 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.	/	4,540,286,436	18.00	H Shares	1,160,050	0	0
2	China Merchants Steam Navigation Co., Ltd.	State-owned legal person	3,289,470,337	13.04	A Shares not subject to trading moratorium	0	0	0
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	0	0	0
4	China Ocean Shipping (Group) Company	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	0	0	0
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	0	0	0
6	China Merchants Finance Investment Holdings Co. Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading moratorium	0	0	0
7	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	0	0	0
8	China Securities Finance Corporation Limited	Domestic legal person	883,835,023	3.50	A Shares not subject to trading moratorium	64,523,845	0	0
9	COSCO Shipping (Guangzhou) Co., Ltd.	State-owned legal person	696,450,214	2.76	A Shares not subject to trading moratorium	0	0	0
10	China Communications Construction Company Limited	State-owned legal person	450,164,945	1.78	A Shares not subject to trading moratorium	0	0	0

Note 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.

Note 2: Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., China Merchants Finance Investment Holdings Co. Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are subsidiaries of China Merchants Group Ltd. As at 30 June 2017, China Merchants Group Ltd. indirectly held an aggregate of 29.97% of the total issued shares of the Company (by way of equity interests held, right of control or relationship of parties acting in concert). China Ocean Shipping (Group) Company and COSCO Shipping (Guangzhou) Co., Ltd. are controlled by China COSCO Shipping Corporation Limited. The Company is not aware of any affiliated relationships among other shareholders.

Note 3: China Merchants Group Limited and China Merchants Steam Navigation Co., Ltd. entered into a relevant agreement on 24 February 2017, pursuant to which, China Merchants Group Limited transferred its 90% equity interest in China Merchants Finance Investment Holdings Co., Ltd., its 49% equity interest in Shenzhen Yan Qing Investment and Development Company Ltd. and its 10.55% equity interest in China Merchants Holdings (Hong Kong) Company Limited to China Merchants Steam Navigation Co., Ltd. at nil consideration. The transfers in such equity interests have been completed. In addition, the name of China Merchants Steam Navigation Co., Ltd. in Chinese has been changed from "招商局輪船股份有限公司" to "招商局輪船有限公司". For more details of the above-mentioned matters, please refer to the relevant announcements of the Company dated 24 February 2017 and 2 August 2017.

Note 4: The above shareholders do not hold the shares of the Company through credit securities accounts.

5.3 Issuance of preference shares

In order to enhance the capital adequacy ratio, to optimise the capital structure, to enhance the capacity for sustainable development and risk resistance, to further improve the overall competitiveness and to continuously promote the transformation and upgrading of the business, the Company proposes to conduct a non-public issuance of Preference Shares in domestic and offshore markets with an aggregate size of not more than RMB35 billion or its equivalent to replenish its additional Tier-1 capital. Among which, the value of Preference Shares proposed to be issued in the domestic market will not exceed RMB27.5 billion while the value of Preference Shares proposed to be issued in the offshore market will not exceed RMB7.5 billion or its equivalent in foreign currencies. The relevant resolutions regarding the above mentioned non-public issuance of Domestic and Offshore Preference Shares were approved at the Tenth Meeting of the 10th Session of the Board of Directors of the Company, the 2016 Annual General Meeting, the First Class Meeting of the Shareholders of A Shares for 2017 and the First Class Meeting of the Shareholders of H Shares for 2017, respectively. The "Approval from CBRC concerning the Non-public Issuance of Preference Shares and Amendments to the Articles of Association by China Merchants Bank" (Yin Jian Fu [2017] No. 249) was issued by the CBRC, pursuant to which, the Company's non-public issuances of the Domestic and Offshore Preference Shares and the amendments to the Articles of Association of China Merchants Bank Co., Ltd. (applicable upon the issuance of the Preference Shares) were approved. For details, please refer to the announcements dated 24 March 2017, 26 May 2017 and 11 August 2017 respectively published by the Company on the "China Securities Journal", "Shanghai Securities News" and "Securities Times" as well as the website of Shanghai Stock Exchange, the website of the Hong Kong Stock Exchange and the website of the Company. The above non-public issuance is pending approval of regulatory authorities such as the CSRC, and the implementation of which will be based on the final approved proposal.

5.4 Issuance of financial bonds

The Bank issued financial bonds in an amount of RMB18 billion in the national interbank bond market of the PRC on 22 May 2017, with a term of three years and an interest rate of 4.20%. The proceeds therefrom will be used to grant loans, including but not limited to micro-finance loans and agriculture loans.

The Bank's New York Branch issued the first tranche of medium-term notes dominated in USD with floating interest rate on 12 June 2017 at the local time. The issue size was USD800 million with a term of three years. The proceeds therefrom will be used for the daily operations of the Company.

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

As at 30 June 2017, as far as the Company is aware, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO (In the report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding):

Name of Substantial Shareholder	Class of shares	Long/ short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	6,697,550,412	1		
		Long	Others	55,196,540	1		
				6,752,746,952		32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Steam Navigation Co., Ltd.	A	Long	Beneficial owner	3,289,470,337			
		Long	Interest of controlled corporation	3,408,080,075	1		
		Long	Others	55,196,540	1		
				6,752,746,952		32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Finance Investment Holdings Co., Ltd.	A	Long	Beneficial owner	1,147,377,415			
		Long	Interest of controlled corporation	2,202,555,520	1		
		Long	Others	55,196,540	1		
				3,405,129,475		16.50	13.50
Best Winner Investment Limited	A	Long	Beneficial owner	58,147,140	1	0.28	0.23
	H	Long	Beneficial owner	328,776,923	1	7.16	1.30

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 (%)
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		10.67	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	60,548,755			
		Long	Investment manager	173,526,550			
		Long	Custodian	86,621,325			
				320,696,630	2	6.99	1.27
		Short	Beneficial owner	9,364,763	2	0.20	0.04
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
Compass Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
CNIC 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	235,477,056	4	5.13	0.93
		Short	Interest of controlled corporation	696,000	4	0.015	0.003

V Changes in Shares and Information on Shareholders

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

(1.2) China Merchants Finance Investment Holdings Co., Ltd. held 1,147,377,415 A Shares (long position) in the Company. China Merchants Finance Investment Holdings Co., Ltd. was a wholly owned subsidiary of China Merchants Steam Navigation Co., Ltd., referred to in (1.1) above.

(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 Co., 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., as referred to in (1.2) above, and China Merchants Steam Navigation Co., Ltd., as referred to in (1.1) above, 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., as referred to in (1.2) above, and Shenzhen Yan Qing Investment and Development Company Ltd., as referred to in (1.4) 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 owned as to 50% by China Merchants Holdings (Hong Kong) Company Limited, which was a wholly-owned subsidiary of China Merchants Steam Navigation Co., Ltd., as referred to in (1.1) above.

(1.7) 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 55,196,540 A Shares (long position) in China Merchants Bank held by China Merchants Industry Development (Shenzhen) Limited (a wholly owned subsidiary of China Merchants China Direct Investments Limited) through block trade or other means permitted by laws provided that the latter gives at least 10 trading days prior notice in writing. As such, China Merchants Finance Investment Holdings Co., Ltd. held 55,196,540 A Shares (long position) in the Company.

(2) JPMorgan Chase & Co. was deemed to hold interests in a total of 320,696,630 H Shares (long position) and 9,364,763 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..

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 86,621,325 H Shares. Besides, 11,154,951 H Shares (long position) and 9,364,763 H Shares (short position) were held through derivatives as follows:

445,000 H Shares (long position) and 497,000 H Shares (short position)	– through physically settled derivatives (on exchange)
441,000 H Shares (short position)	– through cash settled derivatives (on exchange)
58,451 H Shares (long position) and 58,451 H Shares (short position)	– through physically settled derivatives (off exchange)
10,651,500 H Shares (long position) and 8,368,312 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 Compass 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 CNIC 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) Compass Investment Company Limited (referred to in (3)) was deemed to hold the 477,903,500 H Shares in the Company which CNIC Corporation Limited was deemed to hold by virtue of holding 98.9% interest in CNIC Corporation Limited.

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

(4) BlackRock, Inc. was deemed to hold interests in a total of 235,477,056 H Shares (long position) and 696,000 H Shares (short position) in the Company (of which, 645,000 H Shares (long position) and 267,000 H Shares (short position) 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 4,976,919 H Shares (long position) in the Company.

(4.1.2) BlackRock Asset Management Canada Limited held 600,000 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 950,000 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 2,931,626 H Shares (long position) in the Company.

(4.1.5) BlackRock (Singapore) Limited (indirectly wholly-owned by BR Jersey International Holdings L.P.) held 123,500 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 609,000 H Shares (long position) in the Company.

(4.2.2) BlackRock Advisors (UK) Limited held 2,019,699 H Shares (long position) in the Company.

(4.2.3) BlackRock International Limited held 1,553,498 H Shares (long position) in the Company.

(4.2.4) BlackRock Asset Management Ireland Limited held 26,498,284 H Shares (long position) and 35,000 H Shares (short position) in the Company.

(4.2.5) BLACKROCK (Luxembourg) S.A. held 726,792 H Shares (long position) and 166,000 H Shares (short position) in the Company.

(4.2.6) BlackRock Investment Management (UK) Limited held 15,326,059 H Shares (long position) in the Company.

(4.2.7) BlackRock Asset Management Deutschland AG held 228,231 H Shares (long position) in the Company.

(4.2.8) BlackRock Fund Managers Limited held 1,880,212 H Shares (long position) in the Company.

(4.2.9) BlackRock Life Limited held 21,442,899 H Shares (long position) in the Company.

(4.2.10) BlackRock Asset Management (Schweiz) AG held 12,000 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 30 June 2017 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

6.1 Directors, Supervisors and Senior Management

Name	Gender	Date of Birth(Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)
Li Jianhong	Male	1956.5	Chairman	2014.8-2019.6	–	–
			Non-Executive Director	2014.7-2019.6		
Li Xiaopeng	Male	1959.5	Vice Chairman	2015.11-2019.6	–	–
			Non-Executive Director	2014.11-2019.6		
Tian Huiyu	Male	1965.12	Executive Director	2013.8-2019.6	–	–
			President and Chief Executive Officer	2013.9-2019.6		
Sun Yueying	Female	1958.6	Non-Executive Director	2001.4-2019.6	–	–
Li Hao	Male	1959.3	Executive Director, First Executive Vice President and Chief Financial Officer	2007.6-2019.6 (Note 1)	–	–
Fu Gangfeng	Male	1966.12	Non-Executive Director	2010.8-2019.6	–	–
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6-2019.6	–	–
Su Min	Female	1968.2	Non-Executive Director	2014.9-2019.6	–	–
Zhang Jian	Male	1964.10	Non-Executive Director	2016.11-2019.6	–	–
Wang Daxiong	Male	1960.12	Non-Executive Director	2016.11-2019.6	–	–
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1-2019.6	–	–
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2011.7-(Note 2)	–	–
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2012.7-2018.7 (Note 3)	–	–
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2011.11-2017.11 (Note 3)	–	–
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2015.1-2019.6	–	–
Wong See Hong	Male	1953.6	Independent Non-Executive Director	2017.2-2019.6	–	–
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8-2019.6	–	–
Fu Junyuan	Male	1961.5	Shareholder Supervisor	2015.9-2019.6	–	–
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2016.6-2019.6	–	–
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6-2019.6	–	–
Jin Qingjun	Male	1957.8	External Supervisor	2014.10-2019.6	65,800	65,800
Ding Huiping	Male	1956.6	External Supervisor	2016.6-2019.6	–	–
Han Zirong	Male	1963.7	External Supervisor	2016.6-2019.6	–	–
Xu Lizhong	Male	1964.3	Employee Supervisor	2016.6-2019.6	–	–
Huang Dan	Female	1966.6	Employee Supervisor	2015.3-2019.6	–	–
Tang Zhihong	Male	1960.3	Executive Vice President	2006.5-2019.6	–	–
Zhu Qi	Male	1960.7	Executive Vice President	2008.12-2019.6	–	–
Liu Jianjun	Male	1965.8	Executive Vice President	2013.12-2019.6	–	–
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7-present	–	–
Wang Liang	Male	1965.12	Executive Vice President	2015.1-2019.6	–	–
			Secretary of Board of Directors	2016.11-2019.6		
Zhao Ju	Male	1964.11	Executive Vice President	2015.2-2019.6	–	–
Wang Jianzhong	Male	1962.10	Member of the CPC Committee	2017.4-present	–	–
Shi Shunhua	Male	1962.12	Member of the CPC Committee	2017.4-present	–	–
Lian Bolin	Male	1958.5	Executive Assistant President	2012.6-present	–	–
Guo Xuemeng	Female	1966.9	Former Independent Non-Executive Director	2012.7-2017.2	–	–
Ding Wei	Male	1957.5	Former Executive Vice President	2008.5-2017.5	–	–

Notes:

1. Mr. Li Hao has been the Chief Financial Officer of the Company since March 2007, an Executive Director of the Company since June 2007, and the First Executive Vice President of the Company since May 2013.

2. The term of office of Mr. Wong Kwai Lam expired in July 2017 and the Company is in the process of finding a new candidate for its Independent Director. Pursuant to the relevant requirements of the "Guiding Opinions on Establishing the Independent Director System in Listed Companies" (《關于在上市公司建立獨立董事制度的指導意見》), not less than one third of the total directors shall be independent directors in a listed company. Therefore, Mr. Wong Kwai Lam will continue to fulfill his duty until the new Independent Director takes office.

3. Pursuant to the relevant requirements of the "Guiding Opinions on Establishing the Independent Director System in Listed Companies" (《關于在上市公司建立獨立董事制度的指導意見》), the term of office of independent directors shall not exceed six years. Therefore, the term of office of Mr. Pan Chengwei and Ms. Pan Yingli, both being Independent directors, will expire earlier than conclusion of the Tenth Session of the Board of Directors.

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

6.2 Appointment and Resignation of Directors, Supervisors and Senior Management

In February 2017, the qualification of Mr. Wong See Hong for serving as a Director was approved by the CBRC, and Ms. Guo Xuemeng ceased to be the Independent Non-executive Director of the Company. In May 2017, Mr. Ding Wei resigned as the Executive Vice President of the Company due to other business commitment. For details of the above-mentioned matters, please refer to the relevant announcements published by the Company in "China Securities Journal", "Shanghai Securities News" and "Securities Times", as well as the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company. Mr. Wang Jianzhong and Mr. Shi Shunhua were appointed as members of the CPC Committee of the Company in April 2017.

6.3 Changes of Information of Directors and Supervisors

1. Mr. Li Jianhong concurrently serves as the chairman of China Merchants RenHe Life Insurance Company Limited.

2. Mr. Li Xiaopeng ceased to concurrently serve as the chairman of China Merchants United Development Company Limited.

3. Mr. Hong Xiaoyuan concurrently serves as the chairman of China Merchants United Development Company Limited.

4. Ms. Su Min ceased to concurrently serve as the chairman of Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啓航互聯網投資管理有限公司).

5. Mr. Zhang Jian concurrently serves as the director of China Merchants RenHe Life Insurance Company Limited and chairman of Shenzhen China Merchants Ping An Asset Management Co., Ltd. (深圳市招商平安資產管理有限責任公司).

6. Mr. Wang Daxiong ceased to concurrently serve as the director of CIB Fund Management Co., Ltd..

7. Mr. Wong Kwai Lam concurrently serves as the member of Advisory Board of School of Continuing & Professional Studies of The Chinese University of Hong Kong.

8. Ms. Pan Yingli ceased to concurrently serve as the vice president of Shanghai Institute of International Finance Center.

9. Mr. Zhao Jun concurrently serves as the independent non-executive director of Bright Scholar Education Holdings Limited (a company listed on New York Stock Exchange).

10. Mr. Wu Heng concurrently serves as the general manager of SAIC Motor Financial Holding Management Co., Ltd..

11. Mr. Jin Qingjun concurrently serves as the independent non-executive director of Sino-Ocean Group Holding Limited (a company listed on Hong Kong Stock Exchange) and Bank of Tianjin Co., Ltd. (a company listed on Hong Kong Stock Exchange), and ceased to serve as an independent director of Gemdale Corporation (a company listed on Shanghai Stock Exchange).

12. Mr. Ding Huiping ceased to serve as the independent non-executive director of CM Securities (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange).

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

As at 30 June 2017, the interests and short positions of the directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO in Hong Kong), which are required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the directors, supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued shares (%)
Jin Qingjun	Supervisor	A Share	Long position	Beneficial owner	65,800	0.00032	0.00026

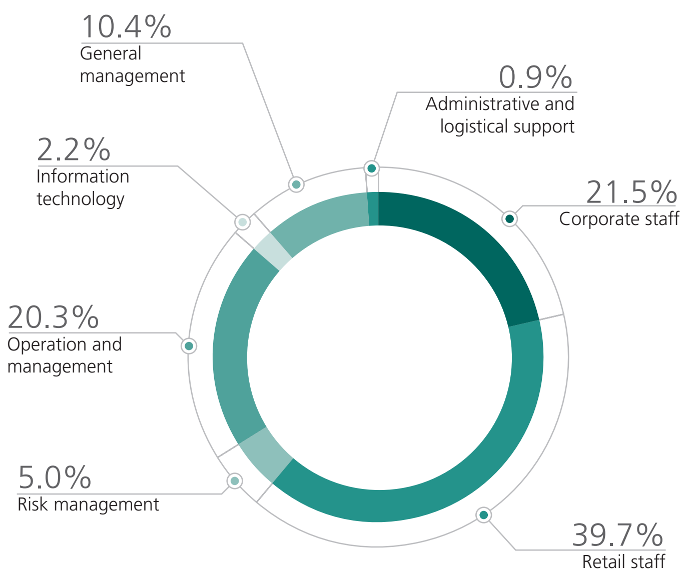
6.5 H Share Appreciation Rights Scheme

The Board of Directors of the Company agreed to grant the Tenth Phase H Share Appreciation Rights to the relevant senior management personnel. For details, please refer to the announcement on the resolutions passed at the meeting of the Board of Directors dated 18 August 2017 published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

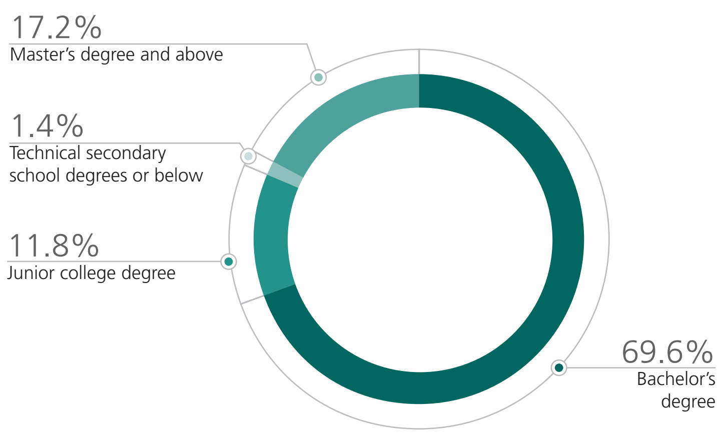
6.6 Information about Employees

As at 30 June 2017, the Company had 70,325 employees (including dispatched employees). The composition of our employees in service is set out as follows:

(1) Professional Structure



(2) Educational Structure



6.7 Branches and Representative Offices

The following table sets forth the branches and representative offices of the Company as at 30 June 2017:

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Volume of assets (RMB million)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,172	2,152,128
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,062	444,923
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	108	4,715	257,285
	Shanghai Pilot Free Trade Zone Branch	Waigaoqiao Building, 6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	43	5,405
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	77	2,706	166,203
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	77	2,401	157,849
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	30	1,155	63,006
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	36	1,187	118,639
	Wuxi Branch	9 Xueqian Road, Wuxi	214001	16	717	31,862
	Wenzhou Branch	1-3/F, Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	12	501	30,840
	Nantong Branch	111 Gongnong Road, Nantong	226007	13	480	27,693
Bohai Rim	Beijing Representative Office	26/F, Building 3, No. 1 Yuetan South Street, Xicheng District, Beijing	100045	1	8	–
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	115	4,731	296,106
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	48	1,562	46,220
	Tianjin Branch	Yujia Building, 255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300201	42	1,629	83,949
	Jinan Branch	7 Gongqingtuan Road, Jinan	250012	58	1,685	73,321
	Yantai Branch	133 Yingchun Street, Laishan District, Yantai	264003	18	493	13,846
	Shijiazhuang Branch	172 Zhonghua South Street, Shijiazhuang	050000	15	357	10,482
	Tangshan Branch	45 Beixin West Road, Lubei District, Tangshan	063000	5	203	4,090

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Volume of assets (RMB million)
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510623	77	2,848	118,978
	Shenzhen Branch	China Merchants Bank Shenzhen Branch Building, 2016 Shennan Boulevard, Futian District, Shenzhen	518001	108	4,970	374,534
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	39	1,127	57,562
	Xiamen Branch	No. 6 Complex Building, Hongtai Industrial Park, 309 Hudong Road, Siming District, Xiamen	361012	34	883	53,089
	Quanzhou Branch	Huangxing Building, No. 301, the middle section of Fengze Street, Quanzhou	362000	18	466	21,459
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523000	32	873	35,462
	Foshan Branch	12 Denghu East Road, Guicheng Street, Nanhai District, Foshan	528200	33	980	48,009
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	56	1,649	44,846
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	38	1,259	50,870
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150010	38	1,058	51,181
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	29	634	26,628
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	83	2,368	125,383
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330008	51	1,333	75,487
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	54	1,381	42,116
	Hefei Branch	China Merchants Bank Mansion, 169 Funan Road, Hefei	230006	42	1,193	46,843
	Zhengzhou Branch	96 Nongye East Road, Zhengzhou	450018	40	1,239	52,379
	Taiyuan Branch	8 Xinjian South Road, Taiyuan	030001	30	849	31,593
	Haikou Branch	Complex Building C, Haian Yihao, 1 Shimao North Road, Haikou	570125	10	267	11,333

Regions	Name of branches	Business address	Postal code	No. of branches	No. of staff	Volume of assets (RMB million)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin South Road, Wuhou District, Chengdu	610000	52	1,502	51,115
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	28	823	29,047
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710075	63	1,788	64,554
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	46	1,461	70,492
	Urumchi Branch	China Merchants Bank Mansion, 2 Huanghe Road, Urumchi	830006	18	695	25,540
	Kunming Branch	CMB Building, 1 Chongren Street Wuhua District, Kunming	650051	45	1,244	57,699
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010098	20	605	24,880
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	21	484	20,355
	Guiyang Branch	284 Zhonghua North Road, Yunyan District, Guiyang	550001	19	444	18,669
	Yinchuan Branch	138 Beijing Road Middle, Jinfeng District, Yinchuan	750001	14	359	14,658
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	10	256	12,505
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	215	121,757
	USA Representative Office	509 Madison Avenue, Suite 306, New York, U.S.A	10022	1	1	3
	New York Branch	535 Madison Avenue 18th Floor, New York, U.S.A	10022	1	126	55,459
	Singapore Branch	1 Raffles Place, Tower 2, #32-61, Singapore	048616	1	47	5,735
	London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	1	2
	Taipei Representative Office	333, Jilong Road, Section 1, Xinyi District, Taipei	–	1	2	–
	Luxembourg Branch	5th floor, 4rue Jean Monnet, Luxembourg	L-2180	1	26	2,910
	London Branch	18/F, 20 Fenchurch Street, London, UK	–	1	28	2,410
Other assignments	–	–	–	–	34	–
Total	–	–	–	1,830	70,325	5,829,389

VII Corporate Governance

7.1 Overview of corporate governance

During the reporting period, the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the special committees under the Board of Directors and the Board of Supervisors of the Company functioned in an efficient manner, secured prudence and compliance with the Company's operation, and ensured sustainable and healthy growth of the Company. During the reporting period, the Company held 1 shareholders' general meeting, 7 meetings of the Board of Directors, including 1 on-site meeting and 6 meetings voted by correspondence, at which 49 proposals were considered and approved and 10 special reports were delivered; 15 meetings of the special committees under the Board of Directors, including 3 meetings of Strategic Committee, 4 meetings of Risk and Capital Management Committee, 5 meetings of Audit Committee and 3 meetings of Related Party Transactions Control Committee, at which 55 issues were studied and considered and 23 special reports were delivered; 4 meetings of Supervisory Committee, at which 28 proposals were considered and approved and 5 special reports were delivered; 2 meetings of the special committees under the Board of Supervisors, including 1 meeting of the Nomination Committee and 1 meeting of the Supervisory Committee, at which 4 issues were studied and considered.

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

7.2 Information about general meetings

During the reporting period, the Company convened 1 shareholders' general meeting, being the 2016 Annual General Meeting, the First Class Meeting of the Shareholders of A Shares for 2017 and the First Class Meeting of the Shareholders of H Shares for 2017 in Shenzhen on 26 May 2017. The notifying, convening, holding and voting procedures of the meeting complied with the Company Law, the Articles of Association of the Company and the relevant requirements of the Hong Kong Listing Rules. For details of the relevant resolutions considered at the meeting, please refer to the announcement dated 26 May 2017 in respect of the resolutions passed at the 2016 Annual General Meeting, the First Class Meeting of the Shareholders of A Shares for 2017 and the First Class Meeting of the Shareholders of H Shares for 2017 published on "China Securities Journal", "Shanghai Securities News" and "Securities Times", and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

7.3 Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the period ended 30 June 2017.

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

7.4 Internal control

During the reporting period, the Company steadily pushed forward the transformation of risk management and internal control and compliance from a "palliative" to a "cure" through the following initiatives: to proactively carry out the "Code of Conduct Training for Employees", "Training on Compliance" and "Case Study Warning Training" with a view to constantly reinforcing employees' awareness of compliance; to continue to promote the management initiatives such as investigations on employees' abnormal behaviors, maintaining a record of employee's non-compliance conduct and keeping a list of restriction on employees' violation and conducting due diligence investigation on termination of employment in an effort to improve the management mechanism of employee conduct; to launch the "Extending a Helping Hand(扶油瓶)" campaign throughout the Bank for a period of 3 years to improve the refined management; to carry out specific management and centralised rectification work in accordance with the unified arrangements of regulatory departments, to continue to strengthen the supervision and inspection of various business activities and non-compliance accountability and to earnestly implement the strict management requirements so as to ensure the compliance operation and healthy development of businesses.

During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2016 across all departments of the Head Office, its branches and sub-branches. As reviewed by the Board of Directors of the Company, no significant defects in terms of completeness, reasonableness and effectiveness were found in the Company's internal control system.

7.5 Compliance with the corporate governance code

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

Report on Review of Interim Financial Report

Deloitte.
德勤

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Hong Kong

TO THE BOARD OF DIRECTORS OF

China Merchants Bank Co., Ltd.

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

Introduction

We have reviewed the interim consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 101 to 202, which comprise the consolidated statement of financial position as of 30 June 2017 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these interim consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

18 August 2017

Unaudited Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Note	**2017**	2016
Interest income	3	**116,393**	108,857
Interest expense	4	**(45,497)**	(41,380)
Net interest income		**70,896**	67,477
Fee and commission income	5	**37,526**	39,991
Fee and commission expense		**(2,776)**	(2,212)
Net fee and commission income		**34,750**	37,779
Other net income	6	**6,984**	7,986
Operating income		**112,630**	113,242
Operating expenses	7	**(30,322)**	(31,596)
Charge for insurance claims		**(120)**	(133)
Operating profit before impairment losses		**82,188**	81,513
Impairment losses	8	**(32,648)**	(36,170)
Share of profits of associates		**1**	–
Share of profits of joint ventures		**401**	152
Profit before taxation		**49,942**	45,495
Income tax	9	**(10,476)**	(10,163)
Profit for the period		**39,466**	35,332
Attributable to:			
Equity shareholders of the Bank		**39,259**	35,231
Non-controlling interests		**207**	101
Earnings per share			
Basic and diluted (RMB)	11	**1.56**	1.40

The notes on pages 109 to 202 form part of this interim financial report.

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

		Six months ended 30 June	
	Note	**2017**	2016
Profit for the period		**39,466**	35,332
Other comprehensive income for the period after tax and reclassification adjustments			
Items that will be reclassified to profit or loss			
Exchange difference on translation of financial statements of overseas subsidiaries		**(951)**	561
Available-for-sale financial assets: net movement in investment revaluation reserve		**(2,553)**	(853)
Cash flow hedge: net movement in hedging reserve		**(83)**	(101)
Equity-accounted investees – share of other comprehensive income		**21**	(65)
		(3,566)	(458)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability		**–**	–
Other comprehensive income for the period, net of tax	10	**(3,566)**	(458)
Attributable to:			
Equity shareholders of the Bank		**(3,569)**	(458)
Non-controlling interests		**3**	–
Total comprehensive income for the period		**35,900**	34,874
Attributable to:			
Equity shareholders of the Bank		**35,690**	34,773
Non-controlling interests		**210**	101

The notes on pages 109 to 202 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2017	31 December 2016
Assets			
Cash		**14,255**	16,373
Precious metals		**3,797**	2,981
Balances with central bank	12	**592,368**	581,156
Balances with banks and other financial institutions	13	**61,312**	103,013
Placements with banks and other financial institutions	14	**166,841**	200,251
Amounts held under resale agreements	15	**217,190**	278,699
Loans and advances to customers	16	**3,404,094**	3,151,649
Interest receivable		**28,173**	26,251
Financial assets at fair value through profit or loss	17(a)	**52,956**	55,972
Derivative financial assets	37(f)	**11,481**	8,688
Available-for-sale financial assets	17(b)	**404,182**	389,138
Held-to-maturity investments	17(c)	**516,094**	477,064
Debt securities classified as receivables	17(d)	**582,370**	528,748
Interests in joint ventures	18	**3,998**	3,630
Interests in associates	19	**18**	82
Property and equipment	20	**46,627**	43,857
Investment properties	21	**1,583**	1,701
Intangible assets	22	**4,079**	3,914
Goodwill	23	**9,954**	9,954
Deferred tax assets	24	**40,556**	31,010
Other assets		**37,762**	28,180
Total assets		**6,199,690**	5,942,311
Liabilities			
Borrowing from central bank		**351,542**	330,108
Deposits from banks and other financial institutions	25	**399,902**	555,607
Placements from banks and other financial institutions	26	**212,457**	248,876
Amounts sold under repurchase agreements	27	**158,357**	162,942
Deposits from customers	28	**4,142,254**	3,802,049
Interest payable		**34,274**	36,246
Financial liabilities at fair value through profit or loss	29	**23,995**	23,576
Derivative financial liabilities	37(f)	**16,077**	11,152
Debt securities issued	30	**346,902**	275,082
Salaries and welfare payable		**6,821**	7,048
Tax payable		**17,825**	19,523
Deferred tax liabilities	24	**906**	897
Other liabilities		**66,554**	65,843
Total liabilities		**5,777,866**	5,538,949

The notes on pages 109 to 202 form part of this interim financial report.

Unaudited Consolidated Statement of Financial Position

At 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

	Note	30 June 2017	31 December 2016
Equity			
Share capital	31	**25,220**	25,220
Capital reserve		**67,523**	67,523
Investment revaluation reserve		**(1,081)**	1,454
Hedging reserve		**(102)**	(19)
Surplus reserve		**39,708**	39,708
Regulatory general reserve		**68,081**	67,838
Retained profits		**219,463**	180,447
Proposed profit appropriations	32(b)	**–**	18,663
Exchange reserve		**565**	1,516
Total equity attributable to equity shareholders of the Bank		**419,377**	402,350
Non-controlling interests	39	**2,447**	1,012
– Minority interests		**1,277**	1,012
– Perpetual debt capital		**1,170**	–
Total equity		**421,824**	403,362
Total equity and liabilities		**6,199,690**	5,942,311

Approved and authorised for issue by the Board of Directors on 18 August 2017.

Mr. Li Jianhong
Director

Mr. Tian Huiyu
Director

Company Chop

The notes on pages 109 to 202 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

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

Notes:

(i) China Merchants Fund Management Co., Ltd reversed the dividends distribution scheme of the year 2016.

The notes on pages 109 to 202 form part of this interim financial report.

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

		For the six months ended 30 June 2016											
		Total equity attributable to equity shareholders of the Bank											
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained earnings	Proposed profit appropriations	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2016		25,220	67,523	6,188	241	34,009	64,679	145,887	17,402	(343)	360,806	952	361,758
Changes in equity for the period		–	–	(918)	(101)	–	(73)	35,304	(17,402)	561	17,371	59	17,430
(a) Net profit for the period		–	–	–	–	–	–	35,231	–	–	35,231	101	35,332
(b) Other comprehensive income for the period	10	–	–	(918)	(101)	–	–	–	–	561	(458)	–	(458)
Total comprehensive income for the period		–	–	(918)	(101)	–	–	35,231	–	561	34,773	101	34,874
(c) Changes by the shareholder's equity													
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(42)	(42)
(d) Profit appropriations													
(i) appropriations to regulatory general reserve		–	–	–	–	–	(73)	73	–	–	–	–	–
(ii) Dividends paid for the year 2015		–	–	–	–	–	–	–	(17,402)	–	(17,402)	–	(17,402)
At 30 June 2016		25,220	67,523	5,270	140	34,009	64,606	181,191	–	218	378,177	1,011	379,188

The notes on pages 109 to 202 form part of this interim financial report.

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

	Six months ended 30 June	
	2017	2016
Operating activities		
Profit before tax	**49,942**	45,495
Adjustments for:		
– Impairment losses on loans and advances	**33,139**	35,207
– Impairment losses on investments and other assets	**(491)**	963
– Unwind of discount	**(446)**	(583)
– Depreciation of properties and equipment and investment properties	**2,440**	2,083
– Amortisation of other assets	**293**	304
– Net gain on debt securities and equity investments	**(4,007)**	(5,132)
– Interest income on investments	**(24,653)**	(23,577)
– Interest expense on issued debt securities	**5,983**	5,041
– Share of profits of associates	**(1)**	–
– Share of profits of joint ventures	**(401)**	(152)
– Net gains on disposal of properties and equipment	**(7)**	(13)
Changes in:		
Balances with central bank	**(18,610)**	(22,728)
Loans and advances to customers	**(285,010)**	(217,369)
Other assets	**(4,612)**	(31,127)
Deposits from customers	**340,205**	120,950
Deposits and placements from banks and other financial institutions	**(196,709)**	(212,122)
Balances and placements with banks and other financial institutions with original maturity over 3 months	**48,975**	(67,114)
Borrowing from central bank	**21,434**	65,422
Other liabilities	**(1,843)**	20,367
Cash (used in) from operating activities	**(34,379)**	(284,085)
Income tax paid	**(21,497)**	(16,241)
Net cash (used in) from operating activities	**(55,876)**	(300,326)
Investing activities		
Payment for the purchase of investments	**(331,828)**	(445,242)
Payment for the purchase of property and equipment and other assets	**(6,024)**	(2,512)
Payment for the subsidiaries, associates, joint venture	**(6)**	–
Proceeds from the disposal of investments	**221,500**	475,545
Gains received from investments	**33,842**	26,904
Proceeds from the disposal of subsidiaries, associates, joint venture	**29**	–
Proceeds from the disposal of property and equipment and other assets	**18**	418
Proceeds of loans from joint venture	**–**	5
Net cash generated from (used in) investing activities	**(82,469)**	55,118

The notes on pages 109 to 202 form part of this interim financial report.

Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

	Note	Six months ended 30 June 2017	2016
Financing activities			
Proceeds from the issue of debt securities		**32,318**	7,910
Proceeds from the issue of negotiable interbank certificates of deposit		**153,580**	273,480
Proceeds from the issue of certificates of deposit		**21,395**	5,409
Proceeds from Perpetual debt capital		**1,170**	–
Repayment of negotiable interbank certificates of deposit		**(103,295)**	(241,950)
Repayment of certificates of deposit		**(7,719)**	(11,450)
Repayment of the issue of medium term notes		**(3,475)**	–
Repayment of debt securities issued		**(23,764)**	(1,000)
Repayment of redemption of non-controlling equity		**(22)**	(42)
Dividends paid		**(15,265)**	–
Interest paid on financing activities		**(7,204)**	(4,299)
Net cash generated from financing activities		**47,719**	28,058
Net (decrease) in cash and cash equivalents		**(90,626)**	(217,150)
Cash and cash equivalents as at 1 January		**532,112**	635,843
Effect of foreign exchange rate changes		**(1,340)**	(761)
Cash and cash equivalents as at 30 June	33(a)	**440,146**	417,932
Cash flows from operating activities include:			
Interest received		**89,639**	85,791
Interest paid		**41,257**	38,762

The notes on pages 109 to 202 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

1. General information

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

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

As at 30 June 2017, apart from the Head Office, the Bank had 50 branches in the Mainland China, Hong Kong, New York, Singapore, London and Luxembourg. In addition, the Bank has four representative offices in Beijing, London, New York and Taipei.

The particulars of the Bank's major subsidiaries as at 30 June 2017 are set out below.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities	Economic nature	Chairman of the Board
CMB International Capital Holdings Corporation Limited ("CMBICHC")	Hong Kong	HKD4,129	100%	Financial advisory services	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited ("CMBFLC")	Shanghai	RMB6,000	100%	Finance lease	Limited company	Lian Bolin
Wing Lung Bank Limited ("WLB")	Hong Kong	HKD1,161	100%	Banking	Limited company	Tian Huiyu
China Merchants Fund Management Co., Ltd. ("CMFM")	Shenzhen	RMB210	55%	Asset management	Limited company	Li Hao

(Expressed in millions of Renminbi unless otherwise stated)

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

(a) Basis of preparation and principal accounting policies

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

This unaudited interim financial report of the Group should be read in conjunction with the 2016 annual consolidated financial statements.

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

Except as described below, the Group's accounting policies applied in preparing this unaudited interim financial report are consistent with those policies applied in preparing the financial report for the year ended 31 December 2016.

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

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IAS 7	Disclosure Initiative
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle, relate to the amendments to IFRS 12

The adoption of these new standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group, except for the adoption of amendments to IAS 7 which will result in the disclosure of reconciliation of liabilities arising from financing activities in the annual consolidated financial statements for year ending 31 December 2017.

(Expressed in millions of Renminbi unless otherwise stated)

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

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

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

		Effective for annual period beginning on or after
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	a date to be determined
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle, except for the amendments to IFRS 12	1 January 2018
IFRS 15	Revenue from Contracts with Customers and the related Amendments	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

(b) Accounting estimates and judgements

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

The Group's accounting estimates and judgements applied in preparing these unaudited interim financial report are consistent with those accounting estimates and judgements applied in preparing the consolidated financial statements for the year ended 31 December 2016.

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

3. Interest income

	Six months ended 30 June	
	2017	2016
Loans and advances to customers		
– Corporate loans	**32,451**	33,801
– Retail loans	**47,163**	40,057
– Discounted bills	**1,976**	2,418
Balances with central bank	**4,279**	4,059
Balances and placements with banks and other financial institutions	**3,313**	2,282
Amounts held under resale agreements	**2,558**	2,663
Investments	**24,653**	23,577
Interest income on financial assets that are not at fair value through profit or loss	**116,393**	108,857

Note: For the six months ended 30 June 2017, included in the above is interest income of RMB446 million accrued on impaired loans (for the six months ended 30 June 2016: RMB583 million) and nil on impaired debt securities investments (for the six months ended 30 June 2016: nil).

4. Interest expense

	Six months ended 30 June	
	2017	2016 (Restated)
Deposits from customers	**24,216**	23,561
Borrowing from central bank	**4,126**	2,109
Deposits and placements from banks and other financial institutions	**8,094**	9,230
Amounts sold under repurchase agreements	**3,078**	1,439
Debt securities issued	**5,983**	5,041
Interest expense on financial liabilities that are not at fair value through profit or loss	**45,497**	41,380

(Expressed in millions of Renminbi unless otherwise stated)

5. Fee and commission income

	Six months ended 30 June	
	2017	2016
Bank cards fees	**6,512**	4,798
Remittance and settlement fees	**5,429**	3,366
Agency services fees	**8,280**	9,676
Commissions from credit commitment and lending business	**2,271**	2,363
Commissions on trust and fiduciary activities	**11,942**	15,991
Others	**3,092**	3,797
Total	**37,526**	39,991

6. Other net income

	Six months ended 30 June	
	2017	2016 (Restated)
Profit (loss) from fair value change		
– financial instruments held for trading	**(130)**	(147)
– financial instruments designated at fair value through profit or loss	**19**	(147)
– derivatives instruments	**122**	(158)
– precious metals	**(219)**	(1,803)
Profit (loss) from investments.		
– financial instruments at fair value through profit or loss	**620**	1,113
– available-for-sale financial assets	**423**	790
– gain on disposal of bills and others	**2,619**	4,342
– precious metals	**345**	1,886
Exchange gain(loss)	**1,605**	939
Other income		
– rental income	**1,347**	423
– insurance income	**168**	407
Others	**65**	341
Total	**6,984**	7,986

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

7. Operating expenses

	Six months ended 30 June	
	2017	2016
Staff costs		
– Salaries and bonuses	**12,288**	11,592
– Social insurance and corporate supplemental insurance	**2,771**	2,567
– Others	**2,675**	2,200
Subtotal	**17,734**	16,359
Turnover tax and surcharges	**1,073**	5,133
Property, equipment and investment properties depreciation	**2,440**	2,083
Other assets amortisation	**293**	304
Rental expenses	**2,066**	2,002
Other general and administrative expenses	**6,716**	5,715
Total	**30,322**	31,596

8. Impairment losses

	Six months ended 30 June	
	2017	2016
Loans and advances to customers (Note 16(c))	**33,139**	35,207
Amounts due from banks and other financial institutions (Note 13, Note 14(c), Note 15(d))	**100**	(9)
Investments		
– Available-for-sale financial assets (Note 17(b))	**(87)**	35
– Held-to-maturity investments(Note 17(c))	**7**	(10)
– Debt securities classified as receivables(Note 17(d))	**(880)**	727
Others	**369**	220
Total	**32,648**	36,170

(Expressed in millions of Renminbi unless otherwise stated)

9. Income tax

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

	Six months ended 30 June	
	2017	2016
Current income tax expense		
– Mainland China	**18,393**	17,905
– Hong Kong	**560**	443
– Overseas	**99**	49
Subtotal	**19,052**	18,397
– Deferred taxation	**(8,576)**	(8,234)
Total	**10,476**	10,163

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
Profit before taxation	**49,942**	45,495
Tax at the PRC statutory income tax rate of 25% (30 June 2016: 25%)	**12,486**	11,374
Tax effects of the following items:		
– Effects of non-deductible expenses	**269**	288
– Effects of non-taxable income	**(2,193)**	(1,480)
– Effects of different applicable rates of tax prevailing in other jurisdictions	**(86)**	(19)
Income tax expense	**10,476**	10,163

Notes:

(i) The applicable income tax rate for the Bank's operations is 25% for the six months ended 30 June 2017. (Six months ended 30 June 2016: 25%).

(ii) The applicable income tax rate in Hong Kong is 16.5% for the six months ended 30 June 2017. (Six months ended 30 June 2016: 16.5%).

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

Notes to the Unaudited Interim Financial Report
For the Six Months ended 30 June 2017
(Expressed in millions of Renminbi unless otherwise stated)

10. Other comprehensive income

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

	Six months ended 30 June					
	2017			2016		
	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	**(3,464)**	**911**	**(2,553)**	(1,098)	245	(853)
Cash flow hedge:						
– Net movement in hedging reserve	**(111)**	**28**	**(83)**	(135)	34	(101)
Exchange differences	**(951)**	**–**	**(951)**	561	–	561
Equity-accounted investees						
– share of other comprehensive income	**21**	**–**	**21**	(65)	–	(65)
Other comprehensive income	**(4,505)**	**939**	**(3,566)**	(737)	279	(458)

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

	Six months ended 30 June	
	2017	2016
Available-for-sale financial assets:		
Changes in fair value recognised during the period	**(2,446)**	(297)
Reclassification adjustments for amounts transferred to profit or loss:		
– On disposal	**(107)**	(556)
Net movement in the investment reserve during the period recognised in other comprehensive income	**(2,553)**	(853)
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	**(64)**	3
Reclassification adjustment for amounts transferred to profit or loss		
– Realised (gains)	**(19)**	(104)
Net movement in the hedging reserve during the period recognised in other comprehensive income	**(83)**	(101)

(Expressed in millions of Renminbi unless otherwise stated)

11. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2017 and 30 June 2016 is based on the net profit attributable to equity shareholders of the Bank and the weighted average number of shares in issue. There is no difference between basic and diluted earnings per share as there are no potentially dilutive shares outstanding during the six months ended 30 June 2017 and 2016.

	Six months ended 30 June	
	2017	2016
Net profit attributable to equity shareholders of the Bank	**39,259**	35,231
Weighted average number of shares in issue (in million) (note)	**25,220**	25,220
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**1.56**	1.40

Note: Movements of share capital are included in Note 31 of the interim financial report.

12. Balances with central bank

	30 June 2017	31 December 2016
Statutory deposit reserve (note (i))	**524,113**	504,959
Surplus deposit reserve (note (ii))	**66,967**	74,365
Fiscal deposits	**1,288**	1,832
Total	**592,368**	581,156

Notes:

(i) Statutory deposit reserve funds are deposited with the People's Bank of China (the "PBOC") and other central banks outside the Mainland China as required and are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 15% and 5.0% for eligible RMB deposits and foreign currency deposits respectively as at 30 June 2017 (31 December 2016: 15% and 5.0% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organizations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and overseas RMB deposits from overseas financial institutions.

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

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

13. Balances with banks and other financial institutions

	30 June 2017	31 December 2016
Balances in Mainland		
– Banks	**33,666**	55,135
– Other financial institutions	**2,674**	1,830
Subtotal	**36,340**	56,965
Balances outside Mainland		
– Banks	**23,131**	46,221
– Other financial institutions	**1,975**	23
Subtotal	**25,106**	46,244
Total	**61,446**	103,209
Less: Impairment allowances		
– Banks	**(122)**	(193)
– Other financial institutions	**(12)**	(3)
Subtotal	**(134)**	(196)
Total	**61,312**	103,013

Movements of allowances for impairment losses

	30 June 2017	31 December 2016
As at 1 January	**196**	126
(Release)/charge for the period/year	**(62)**	70
As at 30 June/31 December	**134**	196

(Expressed in millions of Renminbi unless otherwise stated)

14. Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

	30 June 2017	31 December 2016
Placements in Mainland		
– Banks	**64,038**	26,269
– Other financial institutions	**73,624**	134,268
Subtotal	**137,662**	160,537
Placements outside Mainland		
– Banks	**29,331**	39,730
Subtotal	**29,331**	39,730
Total	**166,993**	200,267
Less: Impairment allowances		
– Banks	**(102)**	(9)
– Other financial institutions	**(50)**	(7)
Subtotal	**(152)**	(16)
Total	**166,841**	200,251

(b) Analysed by residual maturity

	30 June 2017	31 December 2016
Maturing		
– Within one month (inclusive)	**39,721**	86,934
– Between one month and one year (inclusive)	**121,269**	107,540
– Over one year	**5,851**	5,777
Total	**166,841**	200,251

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

14. Placements with banks and other financial institutions *(continued)*

(c) Movements of allowances for impairment losses

	30 June 2017	31 December 2016
As at 1 January	**16**	51
Charge/(Release) for the period/year	**136**	(35)
As at 30 June/31 December	**152**	16

15. Amounts held under resale agreements

(a) Analysed by nature of counterparties

	30 June 2017	31 December 2016
Amounts held under resale agreements in Mainland		
– Banks	**33,150**	4,666
– Other financial institutions	**184,211**	274,705
Amounts held under resale agreements outside Mainland		
– Other financial institutions	**529**	–
Subtotal	**217,890**	279,371
Less: Impairment allowances		
– Banks	**(657)**	(672)
– Other financial institutions	**(43)**	–
Total	**217,190**	278,699

(b) Analysed by residual maturity

	30 June 2017	31 December 2016
Maturing		
– Within one month (inclusive)	**192,999**	276,965
– Between one month and one year (inclusive)	**24,191**	1,734
Total	**217,190**	278,699

(Expressed in millions of Renminbi unless otherwise stated)

15. Amounts held under resale agreements *(continued)*

(c) Analysed by assets types

	30 June 2017	31 December 2016
Bonds	**216,144**	277,335
Bills	**–**	262
Trust beneficiary rights	**–**	52
Asset management schemes	**1,046**	1,050
Total	**217,190**	278,699

(d) Movements of allowances for impairment losses

	30 June 2017	31 December 2016
At 1 January	**672**	200
Charge for the period/year	**26**	472
Exchange difference	**2**	–
As at 30 June/31 December	**700**	672

16. Loans and advances to customers

(a) Loans and advances to customers

	30 June 2017	31 December 2016
Corporate loans and advances	**1,684,099**	1,566,570
Discounted bills	**153,951**	154,517
Retail loans and advances	**1,701,888**	1,540,594
Gross loans and advances to customers	**3,539,938**	3,261,681
Less: Impairment allowances		
– Individually assessed	**(38,192)**	(29,230)
– Collectively assessed	**(97,652)**	(80,802)
Subtotal	**(135,844)**	(110,032)
Net loans and advances to customers	**3,404,094**	3,151,649

Notes to the Unaudited Interim Financial Report

For the Six Months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers

Analysed by industry sector and category:

Operation in Mainland China

	30 June 2017	31 December 2016
Manufacturing	**277,114**	275,710
Wholesale and retail	**251,930**	214,859
Transportation, storage and postal services	**187,861**	175,548
Property development	**183,417**	174,642
Production and supply of electric power, heating power, gas and water	**120,539**	104,393
Leasing and commercial services	**114,892**	97,464
Construction	**88,014**	83,871
Telecommunications, software and IT services	**57,233**	55,806
Mining	**41,681**	46,397
Financial concerns	**41,414**	35,891
Water, environment and public utilities management	**40,067**	35,096
Culture, gymnastics and recreational activities	**16,466**	12,597
Others	**49,970**	50,266
Corporate loans and advances subtotal	**1,470,598**	1,362,540
Discounted bills	**153,951**	154,517
Residential mortgage	**799,919**	720,323
Credit cards	**456,023**	408,951
Micro-finance loans	**296,066**	281,653
Others	**130,435**	109,924
Retail loans and advances subtotal	**1,682,443**	1,520,851
Gross loans and advances to customers	**3,306,992**	3,037,908

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and advances to customers *(continued)*

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

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

Operation outside Mainland China

	30 June 2017	31 December 2016
Property development	**59,914**	52,922
Financial concerns	**47,271**	44,489
Transport and transport equipment	**19,645**	18,281
Wholesale and retail	**15,184**	13,892
Manufacturing	**14,807**	21,732
Leasing and commercial services	**13,778**	5,005
Information technology	**10,947**	21,686
Mining	**5,733**	3,082
Production and supply of electric power, heating power, gas and water	**4,075**	4,276
Recreational activities	**3,353**	2,363
Construction	**706**	802
Water, environment and public utilities management	**359**	147
Others	**17,729**	15,353
Corporate loans and advances subtotal	**213,501**	204,030
Residential mortgage	**7,746**	8,005
Credit cards	**196**	247
Micro-finance loans	**1,617**	1,849
Others	**9,886**	9,642
Retail loans and advances subtotal	**19,445**	19,743
Gross loans and advances to customers	**232,946**	223,773

Notes: As at 30 June 2017, over 90% of the Group's loans and advances to customers were conducted in the PRC (unchanged compared the positions as at 31 December 2016).

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For the Six Months ended 30 June 2017

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses

	For the six months ended 30 June 2017			
	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	**70,694**	**10,108**	**29,230**	**110,032**
Charge for the period (Note 8)	**14,294**	**5,400**	**16,719**	**36,413**
Release for the period (Note 8)	**(473)**	**(1)**	**(2,800)**	**(3,274)**
Write-offs	**–**	**(3,590)**	**(6,246)**	**(9,836)**
Transfer in	**–**	**–**	**23**	**23**
Unwinding of discount	**–**	**–**	**(446)**	**(446)**
Recoveries of loans and advances previously written off	**–**	**1,326**	**1,757**	**3,083**
Exchange difference	**(106)**	**–**	**(45)**	**(151)**
At 30 June	**84,409**	**13,243**	**38,192**	**135,844**

	For the year ended 31 December 2016			
	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	62,412	7,806	14,624	84,842
Charge for the period	9,202	12,019	45,967	67,188
Release for the period	(1,168)	(1)	(1,459)	(2,628)
Write-offs	–	(11,176)	(24,766)	(35,942)
Transfer out	–	–	(5,700)	(5,700)
Unwinding of discount	–	–	(1,001)	(1,001)
Recoveries of loans and advances previously written off	–	1,460	1,433	2,893
Exchange difference	248	–	132	380
At 31 December	70,694	10,108	29,230	110,032

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses

	30 June 2017					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances 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 collateral held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– Financial institutions	176,557	–	1	176,558	–	–
– Non-financial institution customers	3,302,927	14,782	45,671	3,363,380	1.80	7,137
Subtotal	3,479,484	14,782	45,672	3,539,938	1.71	7,137
Less:						
Impairment allowances for loans and advances to						
– Financial institutions	(1,388)	–	(1)	(1,389)		
– Non-financial institution customers	(83,021)	(13,243)	(38,191)	(134,455)		
Subtotal	(84,409)	(13,243)	(38,192)	(135,844)		
Net loans and advances to						
– Financial institutions	175,169	–	–	175,169		
– Non-financial institution customers	3,219,906	1,539	7,480	3,228,925		
Total	3,395,075	1,539	7,480	3,404,094		

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(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	31 December 2016					
	Loans and advances for which impairment losses are collectively assessed (note (i))	Impaired loans and advances for which impairment losses are collectively assessed (note (ii))	Impaired loans and advances 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 collateral held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– Financial institutions	161,976	–	1	161,977	–	–
– Non-financial institution customers	3,038,595	15,392	45,717	3,099,704	1.97	8,379
Subtotal	3,200,571	15,392	45,718	3,261,681	1.87	8,379
Less:						
Impairment allowances for loans and advances to						
– Financial institutions	(276)	–	(1)	(277)		
– Non-financial institution customers	(70,418)	(10,108)	(29,229)	(109,755)		
Subtotal	(70,694)	(10,108)	(29,230)	(110,032)		
Net loans and advances to						
– Financial institutions	161,700	–	–	161,700		
– Non-financial institution customers	2,968,177	5,284	16,488	2,989,949		
Total	3,129,877	5,284	16,488	3,151,649		

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 included impairment losses which are assessed in following ways:

– collectively: that is portfolios of homogeneous loans and advances; or

– individually.

(iii) The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

(Expressed in millions of Renminbi unless otherwise stated)

16. Loans and advances to customers *(continued)*

(e) Finance leases receivable

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

	30 June 2017			31 December 2016		
	Total minimum lease receivable	**Unearned finance income**	**Present value of minimum lease receivable**	Total minimum lease receivable	Unearned finance income	Present value of minimum lease receivable
Within 1 year (inclusive)	**39,632**	**(4,991)**	**34,641**	36,268	(4,649)	31,619
Over 1 year but within 5 years (inclusive)	**73,340**	**(10,225)**	**63,115**	69,845	(8,545)	61,300
Over 5 years	**28,733**	**(3,322)**	**25,411**	22,373	(1,470)	20,903
Subtotal	**141,705**	**(18,538)**	**123,167**	128,486	(14,664)	113,822
Less: Impairment allowances						
– Individually assessed			**(391)**			(449)
– Collectively assessed			**(2,528)**			(2,220)
Subtotal			**(2,919)**			(2,669)
Net investment in finance leases receivable			**120,248**			111,153

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17. Investments

	Note	30 June 2017	31 December 2016
Financial assets at fair value through profit or loss	17(a)	**52,956**	55,972
Derivative financial assets	37(f)	**11,481**	8,688
Available-for-sale financial assets	17(b)	**404,182**	389,138
Held-to-maturity investments	17(c)	**516,094**	477,064
Debt securities classified as receivables	17(d)	**582,370**	528,748
Total		**1,567,083**	1,459,610

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

	Note	30 June 2017	31 December 2016
Financial assets held for trading	(i)	**42,732**	43,333
Financial assets designated at fair value through profit or loss	(ii)	**10,224**	12,639
Total		**52,956**	55,972

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

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

	30 June 2017	31 December 2016
(i) Financial assets held for trading		
Listed		
In Mainland		
– Government bonds	**23,240**	28,901
– Bonds issued by policy banks	**1,942**	3,074
– Bonds issued by commercial banks and other financial institutions	**8,709**	2,164
– Other debt securities	**2,731**	2,679
– Equity investments	**2**	2
Outside Mainland		
– Bonds issued by commercial banks and other financial institutions	**2,516**	2,479
– Other debt securities	**1,742**	1,917
– Equity investments	**530**	643
Subtotal	**41,412**	41,859
Unlisted		
Outside Mainland		
– Other debt securities	**542**	–
– Equity investments	**–**	69
– Investments in funds	**218**	109
Subtotal	**760**	178
Long position in precious metal contracts	**560**	1,296
Subtotal	**1,320**	1,474
Total	**42,732**	43,333

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17. Investments *(continued)*

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

	30 June 2017	31 December 2016
(ii) Financial assets designated at fair value through profit or loss		
Listed		
In Mainland		
– Government bonds	**300**	301
– Bonds issued by policy banks	**107**	2,948
– Bonds issued by commercial banks and other financial institutions	**34**	35
– Other debt securities	**138**	71
Outside Mainland		
– Bonds issued by commercial banks and other financial institutions	**570**	575
– Other debt securities	**4,419**	4,076
Subtotal	**5,568**	8,006
Unlisted		
Outside Mainland		
– Bonds issued by policy banks	**2,852**	–
– Bonds issued by commercial banks and other financial institutions	**1,402**	4,501
– Other debt securities	**402**	132
Subtotal	**4,656**	4,633
Total	**10,224**	12,639

	30 June 2017	31 December 2016
(iii) Analysed by issuing authority		
Issued by:		
– Sovereigns	**23,540**	29,202
– Banks and other financial institutions	**19,442**	17,895
– Corporates	**9,974**	8,875
Total	**52,956**	55,972

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

(b) Available-for-sale financial assets

	30 June 2017	31 December 2016
Listed		
In Mainland		
– Government bonds	**145,903**	132,583
– Bonds issued by policy banks	**39,251**	53,391
– Bonds issued by commercial banks and other financial institutions	**65,364**	67,171
– Other debt securities	**25,215**	18,771
– Equity investments	**327**	230
– Investments in funds	**–**	1,028
Outside Mainland		
– Government bonds	**725**	49
– Bonds issued by policy banks	**1,943**	15
– Bonds issued by commercial banks and other financial institutions	**16,066**	14,119
– Other debt securities	**15,291**	12,900
– Equity investments	**1,320**	1,198
– Investments in funds	**49**	55
Subtotal	**311,454**	301,510
Less: impairment allowances	**(462)**	(569)
Total	**310,992**	300,941

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(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

(b) Available-for-sale financial assets *(continued)*

	30 June 2017	31 December 2016
Unlisted		
In Mainland		
– Bonds issued by policy banks	**389**	–
– Bonds issued by commercial banks and other financial institutions	**22**	–
– Other debt securities	**683**	20
– Equity investments	**1,787**	1,690
– Investments in funds	**42,294**	41,378
Outside Mainland		
– Government bonds	**6,865**	–
– Bonds issued by policy banks	**5,768**	15,724
– Bonds issued by commercial banks and other financial institutions	**23,000**	19,886
– Other debt securities	**11,900**	8,540
– Equity investments	**146**	260
– Investments in funds	**412**	775
Subtotal	**93,266**	88,273
Less: impairment allowances	**(76)**	(76)
Subtotal	**93,190**	88,197
Total	**404,182**	389,138

	30 June 2017	31 December 2016
Issued by:		
– Sovereigns	**153,493**	132,632
– Banks and other financial institutions	**197,729**	216,920
– Corporates	**52,960**	39,586
Total	**404,182**	389,138

(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

(b) Available-for-sale financial assets *(continued)*

Movements of allowances for impairment losses

	30 June 2017	31 December 2016
At 1 January	**645**	667
(Releases) for the period/year	**(87)**	(56)
Write-offs	**(9)**	(3)
Exchange difference	**(11)**	37
At 30 June/31 December	**538**	645

(c) Held-to-maturity investments

	30 June 2017	31 December 2016
Listed		
In Mainland		
– Government bonds	**305,180**	265,325
– Bonds issued by policy banks	**190,637**	189,165
– Bonds issued by commercial banks and other financial institutions	**17,421**	17,749
– Other debt securities	**181**	1,202
Outside Mainland		
– Government bonds	**704**	989
– Bonds issued by commercial banks and other financial institutions	**1,046**	2,238
– Bonds issued by policy banks	**130**	–
– Other debt securities	**405**	224
Subtotal	**515,704**	476,892
Less: impairment allowances	**(95)**	(90)
Subtotal	**515,609**	476,802

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17. Investments *(continued)*

(c) Held-to-maturity investments *(continued)*

	30 June 2017	31 December 2016
Unlisted		
Outside Mainland		
– Bonds issued by commercial banks and other financial institutions	**201**	193
– Other debt securities	**284**	69
Subtotal	**485**	262
Total	**516,094**	477,064

	30 June 2017	31 December 2016
Issued by:		
– Sovereigns	**305,884**	266,314
– Banks and other financial institutions	**209,345**	209,255
– Corporates	**865**	1,495
Total	**516,094**	477,064
Fair value of listed debt securities	**510,842**	484,029

For the six months ended 30 June 2017, the Group did not dispose of any significant debt securities classified as held-to-maturity prior to their maturity (2016: Nil).

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17. Investments *(continued)*

(c) Held-to-maturity investments *(continued)*

Movements of allowances for impairment losses

	30 June 2017	31 December 2016
At 1 January	**90**	95
Charge/(release) for the period/year	**7**	(10)
Exchange difference	**(2)**	5
At 30 June/31 December	**95**	90

(d) Debt securities classified as receivables

	30 June 2017	31 December 2016
In Mainland China		
Investment in bonds		
– Government bonds	**796**	784
– Bonds issued by commercial banks and other financial institutions	**4,365**	8,477
– Other debt securities	**13,315**	17,690
Monetary fund	**3,500**	–
Non-standard assets		
– Bills	**258,543**	240,897
– Loans and advances to customers	**283,841**	205,907
– Deposit from banks	**1,300**	5,896
– Wealth management products	**21,016**	55,216
– Right of debt securities of banks	**–**	16
Outside Mainland China		
– Bonds issued by commercial banks and other financial institutions	**–**	41
Subtotal	**586,676**	534,924
Less: impairment allowances	**(4,306)**	(6,176)
Total	**582,370**	528,748

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(Expressed in millions of Renminbi unless otherwise stated)

17. Investments *(continued)*

(d) Debt securities classified as receivables *(continued)*

	30 June 2017	31 December 2016
Issued by:		
– Sovereigns	**796**	784
– Banks and other financial institutions	**568,259**	510,274
– Corporates	**13,315**	17,690
Total	**582,370**	528,748

Movements of allowances for impairment losses

	30 June 2017	31 December 2016
At 1 January	**6,176**	1,017
Reverse for the period/year	**(880)**	(541)
Transfer in from loans and advances from customer	**–**	5,700
Write off	**(990)**	–
At 30 June/31 December	**4,306**	6,176

18. Interests in joint ventures

	30 June 2017	31 December 2016
Share of net assets	**3,998**	3,630
Share of profits for the period/year	**401**	292
Share of other comprehensive income for the period/year	**24**	(141)

Details of the Group's interest in major joint ventures are as follows:

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Percentage of ownership of the Bank	Percentage of ownership of the Subsidiaries	Principal activity
CIGNA &CMB Life Insurance Company Limited (note(i))	Limited company	Shenzhen	RMB2,800,000	50.00%	50.00%	–	Life insurance business
Merchants Union Consumer Finance Company Limited. (note(ii))	Limited company	Shenzhen	RMB2,000,000	50.00%	–	50.00%	Consumer finance
Bank Consortium Holding Limited (note (iii))	Limited company	Hong Kong	HKD150,000	13.33%	–	14.29%	Provision of trustee, administration and custodian services for retirement schemes
Joint Electronic Teller Services Limited (note (iii))	Limited company	Hong Kong	HKD10,025	2.73%	–	20.00%	Provision of ATM network services
Hong Kong Life Insurance Limited (note (iii))	Limited company	Hong Kong	HKD420,000	16.67%	–	16.67%	Life insurance business
BC Reinsurance Limited (note (iii))	Limited company	Hong Kong	HKD200,000	21.00%	–	21.00%	Reinsurance business
Shenzhen Zhaoyin Synergetic Fund Management Co.,Ltd. (note (iv))	Limited company	Shenzhen	RMB10,000	51.00%	–	51.00%	Fund management
Shenzhen Synergetic Hesheng Merge& Acquisition Fund(note (iv))	Partnership enterprise	Shenzhen	RMB484,160	5.16%	–	5.16%	Investment

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18. Interests in joint ventures *(continued)*

Details of the Group's interest in major joint ventures are as follows: *(continued)*

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Percentage of ownership of the Bank	Percentage of ownership of the Subsidiaries	Principal activity
CMB Qianhai Financial Assets Exchange Co., Ltd. (note (iv))	Limited company	Shenzhen	RMB100,000	49.00%	–	49.00%	Financial assets exchange platform and advisory services
Xinjiang High-Tech Zhaoyin Fund Co., Ltd. (note (iv))	Limited company	Urumqi	RMB5,000	90.00%	–	40.00%	Entrusted management equity investment
Shenzhen Shen'an Juhui Industry Co., Ltd. (note(v))	Limited company	Shenzhen	RMB10,000	50.00%	–	50.00%	Real estate
China Merchants Bank (Tianjin) Equity Investment Fund Management Co., Ltd. (note (iv))	Limited company	Tianjin	RMB50,000	49.00%	–	49.00%	Entrusted management equity investment
The Great Wall bank asset management (Shenzhen) Co., Ltd. (note (iv))	Limited company	Shenzhen	RMB100,000	49.00%	–	49.00%	Entrusted management equity investment

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 directly held by the Bank. The Bank and INA share the joint venture's profits, risks and losses based on the above proportion of their shareholdings. The Bank's investment in CIGNA & CMB Life shall be accounted as an investment in a joint venture.

(ii) The Bank's subsidiary, WLB, and China United Network Communications Limited ("CUNC"), which is a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"). CBRC has approved the operation of MUCFC on 3 March 2015. WLB and CUNC hold 50.00% equity interests of MUCFC respectively and share the risks, profits and losses based on the above proportion of their shareholdings.

(iii) These entities are jointly controlled by the Bank's subsidiary, WLB with other shareholders, and are strategic partners for WLB.

(iv) According to the agreement, the Group jointly controls the entity with other shareholders and none of the shareholders could control the entity by its own.

(v) Shenzhen Shen'an Real Estated Development Co., Ltd. changes its name to Shenzhen Shen'an Juhui Industry Co., Ltd. on 9 January 2017.

19. Interests in associates

	30 June 2017	31 December 2016
Share of net assets	**16**	80
Goodwill	**2**	2
Total	**18**	82
Share of profits for the period/year	**1**	29

The following list contains the information of associates as of 30 June 2017:

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
CSSC Sensation Marine Industry Fund Management Limited	Limited company	Wuxi	RMB10,000	20.00%	Investment

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20. 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 2017	22,654	3,797	9,167	6,269	19,054	6,410	67,351
Additions	11	679	284	49	4,575	77	5,675
Reclassification and transfers	23	(101)	–	1	–	–	(77)
Disposals/write-offs	(13)	–	(87)	(3)	–	(130)	(233)
Exchange difference	(101)	–	(24)	(24)	(394)	(2)	(545)
At 30 June 2017	22,574	4,375	9,340	6,292	23,235	6,355	72,171
Accumulated depreciation:							
At 1 January 2017	7,104	–	6,810	3,684	909	4,987	23,494
Depreciation	554	–	641	338	479	359	2,371
Reclassification and transfers	9	–	–	–	–	–	9
Disposals/write-offs	(7)	–	(87)	(1)	–	(128)	(223)
Exchange difference	(48)	–	(10)	(24)	(23)	(2)	(107)
At 30 June 2017	7,612	–	7,354	3,997	1,365	5,216	25,544
Net book value:							
At 30 June 2017	14,962	4,375	1,986	2,295	21,870	1,139	46,627
At 1 January 2017	15,550	3,797	2,357	2,585	18,145	1,423	43,857

(Expressed in millions of Renminbi unless otherwise stated)

20. Property and equipment *(continued)*

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	Total
Cost:							
At 1 January 2016	21,624	4,134	8,254	5,608	5,752	6,279	51,651
Additions	13	798	1,186	490	12,151	450	15,088
Reclassification and transfers	843	(1,135)	(2)	166	–	7	(121)
Disposals/write-offs	(43)	–	(321)	(8)	–	(332)	(704)
Exchange difference	217	–	50	13	1,151	6	1,437
At 31 December 2016	22,654	3,797	9,167	6,269	19,054	6,410	67,351
Accumulated depreciation:							
At 1 January 2016	5,978	–	5,894	2,956	497	4,491	19,816
Depreciation	1,077	–	1,211	719	365	778	4,150
Reclassification and transfers	(14)	–	(2)	5	–	2	(9)
Disposals/write-offs	(23)	–	(312)	(3)	–	(287)	(625)
Exchange difference	86	–	19	7	47	3	162
At 31 December 2016	7,104	–	6,810	3,684	909	4,987	23,494
Net book value:							
At 31 December 2016	15,550	3,797	2,357	2,585	18,145	1,423	43,857
At 1 January 2016	15,646	4,134	2,360	2,652	5,255	1,788	31,835

(a) As at 30 June 2017, the Group considered that there is no impairment loss on property and equipment (31 December 2016: nil).

(b) As at 30 June 2017, the Group has no significant unused property and equipment (31 December 2016: nil).

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For the Six Months ended 30 June 2017

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21. Investment properties

	30 June 2017	31 December 2016
Cost:		
At 1 January	**2,884**	2,694
Transfers	**(23)**	83
Disposals/write-offs	**–**	(3)
Exchange difference	**(60)**	110
At 30 June/31 December	**2,801**	2,884
Accumulated depreciation:		
At 1 January	**1,183**	986
Depreciation	**69**	137
Transfers	**(9)**	14
Disposals/write-offs	**–**	(2)
Exchange difference	**(25)**	48
At 30 June/31 December	**1,218**	1,183
Net book value:		
At 30 June/31 December	**1,583**	1,701
At 1 January	**1,701**	1,708

(Expressed in millions of Renminbi unless otherwise stated)

22. Intangible assets

	Land use rights	Software	Core deposits	Total
Cost/valuation:				
At 1 January 2017	**1,593**	**3,886**	**1,178**	**6,657**
Additions	**–**	**393**	**–**	**393**
Transfers/disposal	**91**	**(30)**	**–**	**61**
Exchange difference	**(6)**	**(3)**	**(37)**	**(46)**
At 30 June 2017	**1,678**	**4,246**	**1,141**	**7,065**
Amortisation:				
At 1 January 2017	**291**	**2,108**	**344**	**2,743**
Additions	**21**	**245**	**21**	**287**
Disposal	**–**	**(29)**	**–**	**(29)**
Exchange difference	**(1)**	**(3)**	**(11)**	**(15)**
At 30 June 2017	**311**	**2,321**	**354**	**2,986**
Net book value:				
At 30 June 2017	**1,367**	**1,925**	**787**	**4,079**
At 1 January 2017	**1,302**	**1,778**	**834**	**3,914**

	Land use rights	Software	Core deposits	Total
Cost/valuation:				
At 1 January 2016	1,517	3,135	1,102	5,754
Additions	74	747	–	821
Transfers/disposal	(10)	–	–	(10)
Exchange difference	12	4	76	92
At 31 December 2016	1,593	3,886	1,178	6,657
Amortisation:				
At 1 January 2016	243	1,633	283	2,159
Additions	47	473	40	560
Disposal	(1)	–	–	(1)
Exchange difference	2	2	21	25
At 31 December 2016	291	2,108	344	2,743
Net book value:				
At 31 December 2016	1,302	1,778	834	3,914
At 1 January 2016	1,274	1,502	819	3,595

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23. Goodwill

	As at 1 January	Addition in the period	Release in the period	As at 30 June	Impairment loss	Net value at 30 June
WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
CMBICHC (note (iii))	1	–	–	1	–	1
Total	10,533	–	–	10,533	(579)	9,954

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interests in WLB. On the acquisition date, the fair value of WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill.

(ii) On 28 November 2013, the Bank acquired a 55.00% equity interests in CMFM. On the acquisition date, the fair value of CMFM's identifiable net assets was RMB752 million of which the Bank accounted for RMB414 million. A sum of RMB355 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill.

(iii) On 1 April 2015, CMBICHC acquired a 100% equity interests in China Merchants Bank Network Technology (Shenzhen) Corporation Limited ("CMB Network"). On the acquisition date, the fair value of CMB Network's identifiable net assets was RMB2.60 million. A sum of RMB1 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. CMB Network's principal activities include development and sale of computer software and hardware, sale of communication equipment and office automation equipment, advisory service of computer technology and information.

Impairment assessment for Cash Generating Unit (CGU) containing goodwill

Goodwill is allocated to the Group's CGU, WLB which was acquired on 30 September 2008, CMFM which was acquired on 28 November 2013 and CMB Network which was acquired on 1 April 2015 by CMBICHC.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In accessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of WLB and CMFM.

(Expressed in millions of Renminbi unless otherwise stated)

24. Deferred tax assets, deferred tax liabilities

	30 June 2017	31 December 2016
Deferred tax assets	**40,556**	31,010
Deferred tax liabilities	**(906)**	(897)
Net amount	**39,650**	30,113

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

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

	30 June 2017		31 December 2016	
	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	**140,258**	**35,072**	112,316	28,096
Investment revaluation reserve	**2,099**	**525**	(1,718)	(430)
Salary and welfare payable	**9,811**	**2,453**	10,501	2,625
Others	**10,073**	**2,506**	2,891	719
Total	**162,241**	**40,556**	123,990	31,010
Deferred tax liabilities				
Impairment allowances on loans and advances to customers and other assets	**214**	**35**	229	38
Investment revaluation reserve	**(380)**	**(96)**	(238)	(55)
Others	**(5,124)**	**(845)**	(5,332)	(880)
Total	**(5,290)**	**(906)**	(5,341)	(897)

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24. Deferred tax assets, deferred tax liabilities *(continued)*

(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 2017	**28,134**	**(485)**	**2,625**	**(161)**	**30,113**
Recognised in profit or loss	**6,976**	**–**	**(172)**	**1,772**	**8,576**
Recognised in other comprehensive Income	**–**	**911**	**–**	**28**	**939**
Exchange difference	**(3)**	**3**	**–**	**22**	**22**
At 30 June 2017	**35,107**	**429**	**2,453**	**1,661**	**39,650**
At 1 January 2016	15,825	(1,966)	2,418	(1,124)	15,153
Recognised in profit or loss	12,305	–	207	929	13,441
Recognised in other comprehensive Income	–	1,483	–	87	1,570
Exchange difference	4	(2)	–	(53)	(51)
At 31 December 2016	28,134	(485)	2,625	(161)	30,113

Note: No deferred tax liability has been recognised in respect of the undistributed earnings of oversea subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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25. Deposits from banks and other financial institutions

	30 June 2017	31 December 2016
In Mainland		
– Banks	**49,450**	80,612
– Other financial institutions	**329,251**	470,062
Subtotal	**378,701**	550,674
Outside Mainland		
– Banks	**21,201**	4,933
Total	**399,902**	555,607

26. Placements from banks and other financial institutions

	30 June 2017	31 December 2016
In Mainland		
– Banks	**131,588**	173,218
– Other financial institutions	**35,353**	40,809
Subtotal	**166,941**	214,027
Outside Mainland		
– Banks	**45,516**	34,849
Total	**212,457**	248,876

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27. Amounts sold under repurchase agreements

(a) Analysed by nature of counterparties

	30 June 2017	31 December 2016
In Mainland		
– Banks	**154,926**	151,323
– Other financial institutions	**2,969**	10,817
Subtotal	**157,895**	162,140
Outside Mainland		
– Banks	**462**	802
Total	**158,357**	162,942

(b) Analysed by assets type

	30 June 2017	31 December 2016
Debt securities		
– Government bonds	**34,623**	10,581
– Bonds issued by policy banks	**16,625**	53,123
– Bonds issued by commercial banks and other financial institutions	**461**	12,930
– Other debt securities	**401**	295
Subtotal	**52,110**	76,929
Discounted bills	**106,247**	86,013
Total	**158,357**	162,942

(Expressed in millions of Renminbi unless otherwise stated)

28. Deposits from customers

	30 June 2017	31 December 2016
Corporate customers		
– Demand deposits	**1,543,497**	1,441,225
– Time deposits	**1,222,528**	1,076,266
Subtotal	**2,766,025**	2,517,491
Retail customers		
– Demand deposits	**1,042,025**	951,615
– Time deposits	**334,204**	332,943
Subtotal	**1,376,229**	1,284,558
Total	**4,142,254**	3,802,049

29. Financial liabilities at fair value through profit or loss

	Note	30 June 2017	31 December 2016
Financial liabilities held for trading	(a)	**9,655**	7,530
Financial liabilities designated at fair value through profit or loss	(b)	**14,340**	16,046
Total		**23,995**	23,576

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29. Financial liabilities at fair value through profit or loss *(continued)*

(a) Financial liabilities held for trading

	30 June 2017	31 December 2016
– Precious metal relevant financial liabilities	**9,214**	7,530
– Short sale securities	**441**	–
Total	**9,655**	7,530

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

	30 June 2017	31 December 2016
In Mainland		
– Precious metal contracts with other banks	**5,688**	3,498
– Others	**18**	15
Subtotal	**5,706**	3,513
Outside Mainland		
– Certificates of deposit issued	**3,261**	3,595
– Debt securities issued	**5,373**	8,938
Subtotal	**8,634**	12,533
Total	**14,340**	16,046

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 period presented and cumulatively as at 30 June 2017 and 31 December 2016.

30. Debt securities issued

	Note	30 June 2017	31 December 2016
Subordinated notes issued	(a)	**31,324**	31,356
Long-term debt securities issued	(b)	**48,552**	40,959
Negotiable interbank certificates of deposit		**238,534**	188,248
Certificates of deposit issued		**28,492**	14,519
Total		**346,902**	275,082

(Expressed in millions of Renminbi unless otherwise stated)

30. Debt securities issued *(continued)*

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the period (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the period (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (notes(i))	180 months	Sep 4,2008	5.90 (for the first ten years); 8.90 (from the 11th year onwards, if the notes are not called by the Bank)	RMB7,000	6,997	–	–	–	6,997
Fixed rate bond (notes(ii))	180 months	Dec 28,2012	5.20	RMB11,700	11,689	–	–	–	11,689
Fixed rate bond (notes(iii))	120 months	Apr 18,2014	6.40	RMB11,300	11,288	–	1	–	11,289
Total					29,974	–	1	–	29,975

Notes:

(i) The China Banking Regulatory Commission (the "CBRC") and the People's Bank Of China (the "PBOC") approved the Bank's issuance of RMB30,000 million subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No.304 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No.25 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26,000 million fixed rate notes and RMB4,000 million floating rate notes on 4 September 2008 to institutional investors on National Interbank Bond Market.

The Bank exercised its redemption right on 4 September 2013 and redeemed a total of RMB23,000 million subordinated bonds, including two types of bonds valued at RMB19,000 million and RMB4,000 million respectively.

(ii) The CBRC and the PBOC approved the Bank's issuance of RMB11,700 million subordinated notes on 29 November 2012 (Yin Jian Fu [2012] No.703 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank") and on 20 December 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.91 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11,700 million fixed rate notes on 28 December 2012 to institutional investors on National Interbank Bond Market.

(iii) The CBRC and PBOC approved the Bank's issuance of RMB11,300 million tier-2 capital bonds on 29 October 2013 (Yin Jian Fu [2013] No.557 entitled "The Approval of the Issuance of Subordinated Bonds by China Merchants Bank") and on 15 April 2014 (Yin Shi Chang Xu Zhun Yu Zi [2014] No.22 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11,300 million tier-2 capital bonds on 18 April 2014 on National Interbank Bond Market.

(Expressed in millions of Renminbi unless otherwise stated)

30. Debt securities issued *(continued)*

(a) Subordinated notes issued *(continued)*

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

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the period (RMB in million)	Foreign exchange rate changes (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the period (RMB in million)	Ending balance (RMB in million)
Fixed to floating rate notes	120 months	Nov 6,2012	3.50 (for the first 5 years); T*+2.80 (from the 6th year onwards, if the notes are not called by the Bank)	USD200	1,382	–	(34)	1	–	1,349
Total					1,382	–	(34)	1	–	1,349

* T represents the 5 years US Treasury rate.

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30. Debt securities issued *(continued)*

(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 during the period (RMB in million)	Foreign exchange rate changes (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the period (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (notes (i))	36 months	May 22,2017	4.20	RMB18,000	–	17,978	–	1	–	17,979
Medium term note (note(ii))	36 months	June 12,2017	3M Libor+0.825	USD800	–	5,424	(8)	–	–	5,416
Total					–	23,402	(8)	1	–	23,395

Note:

(i) The CBRC and PBOC approved the Bank's issuance of RMB30,000 million financial bonds on 1 April 2017 (Yin Jian Fu [2017] No.114 entitled "The Approval of Financial Bond by China Merchants Bank") and on 5 May 2017 (Yin Shi Chang Xu Zhun Yu Zi [2017] No.74 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB18,000 million fixed rate debt on 22 May 2017 on the National Interbank Bond Market.

(ii) The National Development and Reform Commission approved the Bank's issuance of USD2,000 million foreign debt on 22 April 2017 (Fa Gai Wai Zi [2017] No.560 entitled "Approval of 2017 Pilot Enterprise of Foreign Debt Scale Management (2nd batch) by the National Development and Reform Commission ", valid until 31 March 2018). The Bank issued USD800 million floating rate medium-term notes on 12 June 2017 in New York.

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30. 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 during the period (RMB in million)	Foreign exchange rate changes (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment during the period (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (note (iii))	60 months	26 Jun 2013	5.08	RMB1,000	1,000	–	–	–	–	1,000
Fixed rate bond (note (iii))	60 months	24 Jul 2013	4.98	RMB1,000	1,000	–	–	–	–	1,000
Fixed rate bond (note (iv))	60 months	11 Aug 2014	3.25	USD500	3,471	–	(85)	8	–	3,394
Fixed rate bond (note (v))	36 months	7 Dec 2015	3.75	RMB200	200	–	–	–	–	200
Fixed rate bond (note (vi))	36 months	11 Mar 2016	3.27	RMB3,800	3,800	–	–	–	–	3,800
Leased asset backed securities (note (vii))	74.5 months	5 May 2016	2.98/3.09/ R-1.35**	RMB4,110	2,227	–	–	–	(891)	1,336
Fixed rate bond (note (viii))	36 months	29 Nov 2016	2.63	USD300	2,078	–	(51)	6	–	2,033
Fixed rate bond (note (viii))	60 months	29 Nov 2016	3.25	USD900	6,244	–	(153)	14	–	6,105
Fixed rate bond (note (ix))	36 months	15 Mar 2017	4.5	RMB4,000	–	4,000	–	–	–	4,000
Leased asset backed securities (note (x))	31 months	21 Feb 2017	4.3/4.5/4.73	RMB4,930	–	4,930	–	–	(1,875)	3,055
Total					20,020	8,930	(289)	28	(2,766)	25,923

30. Debt securities issued *(continued)*

(b) Long-term debt securities *(continued)*

** RMB900 million of these securities bears a fixed interest rate of 2.98% per annum. RMB600 million of these securities bears a fixed interest rate of 3.09% per annum and the remaining RMB2,610 million of these securities bears an interest rate based on the benchmark lending rate (R) for one to five years published by PBOC minus a spread of 1.35%. The benchmark interest rate published by PBOC is 4.75% during the year ended 30 June 2017 and the year ended 31 December 2016.

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 in 2013 of RMB2,000 million financial bonds on 26 June 2013 and the second tranche in 2013 of RMB2,000 million financial bonds on 24 July 2013. The Bank holds financial bonds issued by CMBFLC amounted to RMB382 million as of 30 June 2017. CMBFLC redeemed long-term bonds amounting to RMB1,000 million on 27 June 2016, and amounting to RMB1,000 million on 25 July 2016.

(iv) On 11 Aug 2014, CMB International Leasing Management Limited ("CMBIL"), CMBFLC's subsidiary issued USD500 million with annual interest rate of 3.25% guaranteed notes due 2019 on the HKEx.

(v) 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.

(vi) As approved by CBRC Shanghai office under its reply on the Issuance of financial bonds by CMBFLC under ref. Hu Yin Jian Fu [2015] No.551 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2015] No.276, CMBFLC issued the first tranche of 2016 of RMB3,800 million financial bonds. This 3- year fixed rate bond pays principal on maturity date. The Bank holds financial bonds issued by CMBFLC amounted to RMB200 million as at 30 June 2017.

(vii) According to decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2016] No.65 and notification on record reply on the issuance of leased asset backed securities by CMBFLC approved by The China Banking Regulatory Commission Innovation Supervision Department, CMBFLC issued the first tranche of 2016 of RMB4,855 million finance leases receivable backed securities on 5 May 2016 in the National Interbank Bond Market. The sponsor CMBIL held the finance leases receivable backed securities amounted to RMB745 million as at both 30 June 2017 and 31 December 2016. CMBFLC redeemed RMB891 million finance leases receivable backed securities during the six months ended 30 June 2017.

(viii) On 29 Nov 2016, CMBIL subsidiary issued USD300 million notes due 2019 with annual interest rate of 2.63% and USD900 million notes due 2021 with annual interest rate of 3.25% on the HKEx. The Bank holds Financial Bonds issued by CMBIL amounted to USD27 million as at 30 June 2017.

(ix) As approved by CBRC Shanghai office under its reply on the Issuance of Financial Bonds by CMBFLC under ref. Hu Yin Jian Fu [2016] No.501 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2017] No.9, CMBFLC issued the first tranche of financial bond on 15 March 2017 amounting to RMB4,000 million during current interim period. This fixed rate bond pays annual interest, and matures in 3 years.

(x) As approved by PBOC under its reply on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2016] No.215 and CBRC Innovation Supervision Department under its Notification on Record Reply on The Issuance of Leased Asset Backed Securities by CMBFLC, CMBFLC issued the first tranche leased asset backed securities amounting to RMB4,930 million on 21 February 2017 in the National Interbank Bond Market, CMBFLC subsequently redeemed RMB1,875 million during the current interim period.

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31. Share capital

By type of share:

	30 June 2017	31 December 2016
Listed shares		
– A-Shares	**20,629**	20,629
– H-Shares	**4,591**	4,591
Total	**25,220**	25,220

All H-Shares are ordinary shares and rank pari passu with the A-Shares. There is no restriction condition on these shares.

	Shared Capital	
	No. of shares (in million)	**Amount**
At 1 January 2017 and at 30 June 2017	**25,220**	**25,220**

32. Profit appropriations

(a) Dividends approved/declared by shareholders

	Six months ended 30 June 2017	Year ended 31 December 2016
Dividends in 2016, approved and to be declared RMB0.74 per shares	**18,663**	–
Dividends in 2015, approved and to be declared RMB0.69 per shares	**–**	17,402

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32. Profit appropriations *(continued)*

(b) Proposed profit appropriations

	Six months ended 30 June 2017	Year ended 31 December 2016
Statutory surplus reserve	–	5,699
Regulatory general reserve	–	3,159
Dividends		
– cash dividend: Nil (2015: RMB6.90 per every 10 shares)	–	18,663
Total	–	27,521

2016 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 26 May 2017.

33. Notes to consolidated statement of cash flows

(a) Analysis of the balances of cash and cash equivalents (with original maturity within 3 months):

	30 June 2017	30 June 2016
Cash and balances with central bank	**81,222**	80,758
Balance with banks and other financial institutions	**50,740**	118,600
Placements with banks and other financial institutions	**85,081**	76,679
Amounts held under resale agreements	**214,462**	134,222
Debt securities investments	**8,641**	7,673
Total	**440,146**	417,932

(b) Significant non-cash transactions

There are no significant non-cash transactions during the six months period ended 30 June 2017 (for the six months ended 30 June 2016: nil).

34. Operating segments

The Group's principal business is the provision of deposit and loan business, treasury business, asset management and other financial services for retail and wholesale customers.

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

Since 2016, in order to adapt to the client and product line coordination mechanism, the Group was converted into wholesale finance business and retail finance business and other business segment for business decisions, report and performance evaluation. The profits and losses of the treasury were allocated to two business lines proportionally. Since 2017, the Group refined the assessment of the impairment losses on the head office which would be distributed to the corresponding business lines. Comparative figures of operating segment results for the six months ended 30 June 2016 have been restated to conform with current period's presentation. The reporting for the segments was as follows:

– Wholesale finance business

The financial service for the corporate clients, government agency clients and financial institutions includes: loan and deposit service, settlement and cash management service, trade finance and offshore business, investment banking business, inter-bank business comprised of lending and buy-back, asset custody business, financial market business, and other services.

– Retail finance business

The provision of financial services to retail customers includes lending and deposit taking activities, bank card business, wealth management services, private banking and other services.

– Other business

Other business covers investment properties, businesses in subsidiaries (except for WLB), associates and joint ventures, and other relevant businesses. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

For the purpose of operating segment analysis, external net interest income/expense represents the net interest income earned or expense incurred on banking services provided to external parties. Internal net interest income/expense represents the assumed profit or loss by the internal funds transfer pricing mechanism which has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on direct costs attributable to each reporting segment and apportion to the relevant factors.

The accounting policies of the operating segments are the same as those of the Group as set out in Note 2. Segment revenue reported above represents revenue generated from external customers, inter-segment transactions are offset. Internal transactions are negotiated at fair value. No customer contributed 10% or more to the Group's revenue for the six months ended 30 June 2017 and 2016.

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34. Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale finance business		Retail finance business		Other business		Total	
	Six months ended 30 June							
	2017	2016 (restated)	**2017**	2016	**2017**	2016 (restated)	**2017**	2016
External net interest income	**19,679**	21,505	**44,679**	36,248	**6,538**	9,724	**70,896**	67,477
Internal net interest income/ (expense)	**15,215**	11,516	**(8,805)**	(2,990)	**(6,410)**	(8,526)	**–**	–
Net interest income	**34,894**	33,021	**35,874**	33,258	**128**	1,198	**70,896**	67,477
Net fee and commission income	**13,599**	16,580	**19,613**	19,614	**1,538**	1,585	**34,750**	37,779
Other net income	**5,079**	6,158	**663**	347	**1,242**	1,481	**6,984**	7,986
Operating income	**53,572**	55,759	**56,150**	53,219	**2,908**	4,264	**112,630**	113,242
Operating expenses	**(11,125)**	(12,070)	**(17,660)**	(18,552)	**(1,537)**	(974)	**(30,322)**	(31,596)
– Depreciation	**(748)**	(684)	**(1,201)**	(1,095)	**(491)**	(304)	**(2,440)**	(2,083)
– Others	**(10,377)**	(11,386)	**(16,459)**	(17,457)	**(1,046)**	(670)	**(27,882)**	(29,513)
Charge for insurance claims	**–**	–	**–**	–	**(120)**	(133)	**(120)**	(133)
Subtotal	**(11,125)**	(12,070)	**(17,660)**	(18,552)	**(1,657)**	(1,107)	**(30,442)**	(31,729)
Reportable segment profit before impairment losses	**42,447**	43,689	**38,490**	34,667	**1,251**	3,157	**82,188**	81,513
Impairment losses	**(21,558)**	(28,552)	**(10,808)**	(7,251)	**(282)**	(367)	**(32,648)**	(36,170)
Share of profit of associates and joint ventures	**–**	–	**–**	–	**402**	152	**402**	152
Reportable segment profit/(loss) before tax	**20,889**	15,137	**27,682**	27,416	**1,371**	2,942	**49,942**	45,495
Capital expenditure (note)	**564**	366	**906**	585	**4,598**	1,326	**6,068**	2,277

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34. Operating segments *(continued)*

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

	Wholesale finance business		Retail finance business		Other business		Total	
	30 June 2017	31 December 2016	**30 June 2017**	31 December 2016	**30 June 2017**	31 December 2016	**30 June 2017**	31 December 2016
Reportable segment assets	**2,873,746**	2,812,631	**1,739,900**	1,571,688	**1,525,038**	1,506,820	**6,138,684**	5,891,139
Reportable segment liabilities	**3,524,653**	3,204,988	**1,391,758**	1,301,502	**788,180**	968,103	**5,704,591**	5,474,593
Interest in associates and joint ventures	**–**	–	**–**	–	**4,016**	3,712	**4,016**	3,712

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

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

	Six months ended 30 June	
	2017	2016
Operating Income		
Total operating income for reportable segments	**112,630**	113,242
Consolidated revenue	**112,630**	113,242
Profit		
Total profit or loss for reportable segments	**49,942**	45,495
Consolidated profit before income tax	**49,942**	45,495

(Expressed in millions of Renminbi unless otherwise stated)

34. Operating segments *(continued)*

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

	30 June 2017	31 December 2016
Assets		
Total assets for reportable segments	**6,138,684**	5,891,139
Goodwill	**9,954**	9,954
Intangible assets	**787**	834
Deferred tax assets	**40,556**	31,010
Other unallocated assets	**9,709**	9,374
Consolidated total assets	**6,199,690**	5,942,311
Liabilities		
Total liabilities for reportable segments	**5,704,591**	5,474,593
Tax payable	**17,825**	19,523
Other unallocated liabilities	**55,450**	44,833
Consolidated total liabilities	**5,777,866**	5,538,949

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operating in Hong Kong, New York, Singapore, London and Luxembourg, subsidiaries operating in Hong Kong and Shanghai and representative offices in Beijing, New York, London and Taipei.

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

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34. Operating segments *(continued)*

(c) Geographical segments *(continued)*

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

– "Headquarters" refers to the Group headquarter, special purpose vehicles at the branch level which are directly under the headquarter, associates and joint ventures, including the headquarter and credit card centres, etc;

– "Yangtze River Delta region" refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;

– "Bohai Rim region" refers to branches and representative offices in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;

- "Pearl River Delta and West Coast region" refers to branches in Guangdong province and Fujian province;

– "Northeast region" refers to branches in Liaoning province, Heilongjiang province and Jilin province;

– "Central region" refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;

– "Western region" refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;

– "Overseas" refers to overseas branches in Hong Kong, London, New York, Singapore, Luxembourg and representative offices in New York, London and Taipei; and

– "Subsidiaries" refers to subsidiaries wholly owned or non-wholly owned by the Group, including WLB, CMBICHC, CMBFLC and CMFM.

(Expressed in millions of Renminbi unless otherwise stated)

34. Operating segments *(continued)*

(c) Geographical segments *(continued)*

Geographical information	Total assets		Total liabilities		Non-current assets		Operating income		Profit before tax	
	30 June 2017	31 December 2016	**30 June 2017**	31 December 2016	**30 June 2017**	31 December 2016	**Six months ended 30 June 2017**	Six months ended 30 June 2016	**Six months ended 30 June 2017**	Six months ended 30 June 2016
Headquarters	**2,536,767**	2,634,760	**2,225,112**	2,313,672	**24,934**	25,029	**39,619**	41,132	**2,703**	14,933
Yangtze River Delta region	**858,335**	768,653	**848,840**	760,973	**2,724**	2,911	**16,817**	17,212	**12,822**	8,402
Bohai Rim region	**528,014**	465,320	**522,047**	461,735	**2,178**	2,331	**12,880**	12,671	**8,360**	5,770
Pearl River Delta and West Coast region	**707,849**	634,092	**700,055**	626,656	**2,033**	1,726	**15,287**	14,594	**10,733**	7,207
Northeast region	**173,525**	157,710	**172,832**	156,670	**1,189**	1,278	**3,241**	3,676	**957**	1,628
Central region	**385,135**	353,771	**381,966**	354,073	**2,480**	2,566	**7,898**	7,916	**4,328**	1,756
Western region	**389,514**	368,485	**386,274**	373,028	**2,530**	2,665	**8,182**	8,866	**4,452**	1,261
Overseas	**187,953**	177,271	**185,866**	173,987	**113**	107	**1,718**	1,185	**1,229**	929
Subsidiaries	**432,598**	382,249	**354,874**	318,155	**28,078**	24,525	**6,988**	5,990	**4,358**	3,609
Total	**6,199,690**	5,942,311	**5,777,866**	5,538,949	**66,259**	63,138	**112,630**	113,242	**49,942**	45,495

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

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35. Contingent liabilities and commitments

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the end of the reporting period if counterparties defaulted.

	30 June 2017	31 December 2016
Contractual amount		
Irrevocable guarantees	**252,285**	240,600
Of which: Finance guarantees	**165,978**	158,423
Non finance guarantees	**86,307**	82,177
Irrevocable letters of credit	**99,287**	103,982
Of which: Open sight letters of credit	**14,128**	18,978
Open usance letters of credit	**7,378**	11,261
Other payment commitments (note)	**77,781**	73,743
Bills of acceptances	**237,682**	256,655
Irrevocable loan commitments		
– with an original maturity within 1 year (inclusive)	**7,189**	9,935
– with an original maturity over 1 year	**62,717**	55,911
Credit card commitments	**602,630**	481,401
Others	**48,818**	18,740
Total	**1,310,608**	1,167,224

Note: Other payment commitments refers to the Group as the acceptor of letters of credit payment commitments.

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

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,727,370 million at 30 June 2017 (31 December 2016: RMB1,685,058 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.

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35. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expired, management assesses and makes allowances 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.

	30 June 2017	31 December 2016
Credit risk weighted amounts of contingent liabilities and commitments	**311,289**	361,045

The Group calculated the credit risk weighted amount of its contingent liabilities and commitment in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Trial) issued by the CBRC. The amount within the scope approved by the CBRC in April 2014 is calculated using the internal rating-based approach, and the risk-weighted approach is used to calculate those not eligible to the internal rating-based approach.

(b) Capital commitments

Authorised capital commitments were as follows:

	30 June 2017	31 December 2016
For purchase of property and equipment:		
– Contracted for	**4,947**	6,898
– Authorised but not contracted for	**681**	128
Total	**5,628**	7,026

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35. Contingent liabilities and commitments *(continued)*

(c) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	30 June 2017	31 December 2016
Within 1 year (inclusive)	**2,918**	3,334
1 year to 5 years (inclusive)	**10,359**	8,829
Over 5 years	**1,896**	2,396
Total	**15,173**	14,559

The Group leases certain properties under operating leases. The leases typically run for an initial period of 1 to 5 years, and may include an option to renew the lease when all terms are renegotiated. None of the lease include contingent rental.

(d) Outstanding litigations

At 30 June 2017, the Group was a defendant in certain outstanding litigations with gross claims of RMB1,018 million (2016: RMB1,444 million) arising from its banking activities. The Board of Directors considers that no material losses would be incurred by the Group as a result of these outstanding litigations and therefore no provision has been made.

(e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back its bonds if the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	30 June 2017	31 December 2016
Redemption obligations	**25,764**	25,465

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

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36. Transactions on behalf of customers

(a) Entrusted lending business

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances by the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

Entrusted lending are not assets of the Group and are not recognised in the consolidated statement of financial position. Income for providing these services are recognised in the consolidated statement of profit or loss as fee and commission income.

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

	30 June 2017	31 December 2016
Entrusted loans	**441,660**	388,340
Entrusted funds	**(441,660)**	(388,340)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including bonds, funds, and entrusted loans. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the consolidated statement of financial position. The funds obtained from wealth management services that have not yet been invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under wealth management services were as follows:

	30 June 2017	31 December 2016
Funds received from customers under wealth management services	**2,128,102**	2,375,766

37. 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.

37. Risk management *(continued)*

(a) Credit risk *(continued)*

In respect of loan classification, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss). The 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.

Analysis of loans and advances by industry and loan portfolio are stated in Note 16.

The Group's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from financial derivatives, the Group has signed hedging agreements with certain counterparties.

(i) Maximum Risk

Without consideration of collateral or other credit enhancement, the total amount of financial assets' book value (including financial derivatives) and credit commitment disclosed in Note 35(a) is the maximum exposure of credit risk that the Group has. On 30 June 2017, the amount of the Group's maximum credit risk exposure is RMB9,111,901 million (unaudited) (31 December 2016: RMB8,680,175 million).

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37. Risk management *(continued)*

(a) Credit risk *(continued)*

(ii) The following table sets out an analysis of the amounts of loans and advances to customers by credit quality:

	30 June 2017	31 December 2016
Impairment loans and advances to customers		
Individually assessed		
Total	**45,672**	45,718
Less: Impairment allowances	**(38,192)**	(29,230)
Carrying amount	**7,480**	16,488
Collectively assessed		
Total	**14,782**	15,392
Less: Impairment allowances	**(13,243)**	(10,108)
Carrying amount	**1,539**	5,284
Overdue but not impaired loans and advances to customers		
– Within 3 month (inclusive)	**18,125**	16,873
– Between 3 month and 6 month (inclusive)	**133**	6
– Between 6 month and 1 year (inclusive)	**93**	11
– Over 1 year	**25**	170
Total	**18,376**	17,060
Less: Collectively assessed impairment allowances	**(3,408)**	(2,912)
Carrying amount	**14,968**	14,148
Neither overdue nor impaired		
Total	**3,461,108**	3,183,511
Less: Collectively assessed impairment allowances	**(81,001)**	(67,782)
Carrying amount	**3,380,107**	3,115,729
Total net loans and advances to customers	**3,404,094**	3,151,649

On 30 June 2017, the Group's loans and advances that were overdue or impaired had the terms re-modified amounted to RMB18,297 million (31 December 2016: 16,671 RMB million).

37. Risk management *(continued)*

(b) Market risk

Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate and which may result in loss to the Group, because of changes in interest rate, foreign exchange rate, commodity price, stock price and other observable market factors. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Group. The Group is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments under the trading book are held for trading purposes or for the purposes of hedging the risks arising from the trading book position, and these financial instruments are traded in active markets. The financial instruments under the banking book are assets and liabilities held by the Group for stable and determinable return, or for the purposes of hedging the risks arising from the banking book position. The financial instruments under the banking book include both the Group's on-balance sheet and off-balance sheet exposure, and have relative stable market value.

(i) Interest rate risk

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

(1) Trading book

The Group has set up its market risk governance framework for trading book, covering interest rate risk, foreign exchange risk and commodity price risk. The Group's market risk governance framework for trading book specifies the roles, responsibilities and reporting line of the Board of Directors, senior management, designated committees and relevant departments to ensure the effectiveness of the trading book market risk management. The market risk management department under the Bank's risk management department is responsible for execution of the management of interest rate risk under the trading book.

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

For management purpose, the Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, including all interest rate risk factors related to trading book), interest rate scenario stress test loss index, interest rate sensitivity index, and cumulative loss index (covering all risk factors related to trading book). Management measures include setting the limit and authorisation of transaction, daily monitoring and constant reporting. Market value at risk indicator (VaR) includes normal market risk value and stress market value, both of which are calculated using historical simulation method.

In the first half of 2017, the Group has adopted a defensive strategy of the RMB bond portfolio in trading accounts, and made dynamic adjustments of types and duration for market changes, to ensure the interest rate risk level of the trading account remain within the range of management objectives.

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37. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Interest rate risk (continued)

(2) Banking book

The Group has established the governance and management framework according to the interest rate risk management policy for the banking book, which specified the roles, responsibilities and reporting lines of the Board of Directors, senior management, designated committees and relevant departments to ensure the effectiveness of interest rate risk management. Interest risk of the banking book of the Group is centrally managed by the Asset and Liability Management Department.

The Group has mainly adopted scenario simulation analysis, re-pricing exposure analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Through assets and liabilities analysis regular meetings and reporting framework, the Group analyses the cause of interest rate risk under the banking book, proposes management advices and implements management measures.

In the first half of 2017, the Group paid close attention to changes in the external interest rate environment; made in-depth analysis and forecasted market interest rates through macro-modeling, made timely adjustment of policies on active interest rate risk management, improved asset-liability structure to ensure that the overall interest rate risk levels remain within management objectives.

(ii) Foreign exchange risk

Foreign exchange risk arises from the holding of foreign currency assets, liabilities and equity items, and the foreign currency and foreign currency derivative positions which may expose the Group to potential losses in the event of unfavourable foreign exchange rate movement. The financial assets and liabilities of the Group are denominated in RMB, and the other currencies are mainly USD and HKD. The Group has established its foreign exchange risk management and governance framework based on segregation of duty principle, which segregates the responsibilities of the establishment, execution and supervision of foreign exchange risk. This framework specified the roles, responsibilities and reporting lines of the Board of Directors, senior management, designated committees and relevant departments of the Bank in the management of foreign exchange risk. The Group takes a prudent strategy in the management of foreign exchange risk, and would not voluntarily take foreign exchange risk, which suits the current development of the Group. The current foreign exchange risk management policies and procedures of the Group fulfil the regulatory requirements and the requirements of the Group in the management of foreign exchange risk.

37. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Foreign exchange risk *(continued)*

(1) Trading book

The Group has established a market risk structure and system of the trading book, which including exchange rate risk, to quantify the exchange rate risk of the trading book for unified management. The structure, process and method of exchange rate risk of trading book are consistent with the interest rate risk of trading book.

For management and risk measurement purpose, the Group adopts quantitative indicators such as exposure indicator, market value at risk indicator (VaR, including interest rate, foreign exchange rate, and commodity risk factors), exchange rate scenario stress test loss index, exchange rate sensitivity index, cumulative loss index, the management method includes conducting business entitlement, setting quota limits, daily monitoring and continuous reporting, etc.

In the first half of 2017, the Group controls the exposure of proprietary foreign exchange, especially the directional currency exposure. Affected by the adjustment of foreign exchange policies of enterprises and individuals in the first half of the year, the size of foreign exchange trading on behalf of customers fell slightly.

(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 with a prudent approach and compliance with the regulatory requirements, and manage the foreign exchange risk through approaches such as management of transaction limits and adjustment of plans.

The banking book foreign exchange risk of the Group arises from the mismatch of the non-RMB assets and liabilities. The Group stringently monitors its foreign exchange risk exposures to manage its foreign exchange risk within acceptable limits.

The Group has adopted foreign exchange exposure analysis, scenario simulation analysis and stress testing for the measurement and analysis of foreign exchange risk. The Group regularly measures and analyses the foreign exchange risk exposure fluctuations, monitors and reports foreign exchange risk on a monthly basis under the limit framework, and adjusts the foreign exchange exposures based on the trend of foreign exchange rate movements to avoid the banking book foreign exchange risk.

In the first half of 2017, the Group has further optimized the foreign exchange risk measuring method of the banking book, which offers objective reference for the management decision making. The Group has continuously strengthened monitoring foreign exchange risk under the banking book and authorisation of limits management, to ensure the risk exposure is in a reasonable range.

37. Risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to obtain sufficient funds at a reasonable cost in a timely manner to meet the maturity obligations, perform other payment obligations and meet the capital requirements of normal business operations.

In line with its liquidity risk management policies, the Group sets out and implements the principle of supervisory duty segregation. It also puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, 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 2017, the overall market liquidity remain balance, the liquidity situation of the Group is in line with the market. The Group's liquidity risk is at a moderate level.

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37. Risk management *(continued)*

(c) Liquidity risk *(continued)*

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

	30 June 2017							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	81,222	–	–	–	–	–	525,401	606,623
Amounts due from banks and other financial institutions	43,439	234,276	63,485	96,229	5,851	–	2,063	445,343
Loans and advances to customers (note (ii))	10,883	148,706	562,287	986,293	787,487	897,979	10,459	3,404,094
Investments (note (iii))								
– Financial assets at fair value through profit or loss (including derivatives)	–	2,836	9,193	15,038	33,203	1,874	2,293	64,437
– Available-for-sale financial assets	–	11,877	78,284	73,033	157,857	79,794	3,337	404,182
– Held-to-maturity investments	–	1,702	4,217	23,968	252,015	234,192	–	516,094
– Debt securities classified as receivables	–	189,163	53,569	194,325	101,833	38,547	4,933	582,370
Other assets	27,727	15,541	8,931	8,165	2,629	90	113,464	176,547
Total assets	163,271	604,101	779,966	1,397,051	1,340,875	1,252,476	661,950	6,199,690
Amounts due to central bank, banks and other financial Institutions	298,294	295,311	154,647	352,331	16,632	5,043	–	1,122,258
Deposits from customers (note (iv))	2,531,563	336,745	458,893	597,096	217,495	462	–	4,142,254
Financial liabilities at fair value through profit or loss (including derivatives)	6,553	6,568	6,401	15,321	4,798	413	18	40,072
Debt securities issued	–	40,953	124,035	98,438	53,501	29,975	–	346,902
Other liabilities	58,764	34,313	5,927	15,880	6,135	1,097	4,264	126,380
Total liabilities	2,895,174	713,890	749,903	1,079,066	298,561	36,990	4,282	5,777,866
(Short)/long position	(2,731,903)	(109,789)	30,063	317,985	1,042,314	1,215,486	657,668	421,824

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37. Risk management *(continued)*

(c) Liquidity risk *(continued)*

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

	31 December 2016							
	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))	90,738	–	–	–	–	–	506,791	597,529
Amounts due from banks and other financial institutions	61,283	377,831	77,081	57,015	6,768	–	1,985	581,963
Loans and advances to customers (note (ii))	11,949	116,211	488,183	999,446	723,022	789,992	22,846	3,151,649
Investments (note (iii))								
– Financial assets at fair value through profit or loss (including derivatives)	1	1,292	7,743	13,458	38,235	1,883	2,048	64,660
– Available-for-sale financial assets	–	9,268	19,435	91,468	155,020	109,207	4,740	389,138
– Held-to-maturity investments	–	631	9,331	16,850	199,251	251,000	1	477,064
– Debt securities classified as receivables	–	187,479	38,631	215,722	63,030	22,131	1,755	528,748
Other assets	24,074	11,646	2,456	2,316	2,324	795	107,949	151,560
Total assets	188,045	704,358	642,860	1,396,275	1,187,650	1,175,008	648,115	5,942,311
Amounts due to central bank, banks and other financial Institutions	417,688	363,649	201,536	295,647	12,721	6,292	–	1,297,533
Deposits from customers (note (iv))	2,341,878	260,082	393,166	581,402	225,406	115	–	3,802,049
Financial liabilities at fair value through profit or loss (including derivatives)	6,914	2,890	4,373	11,911	8,200	426	14	34,728
Debt securities issued	–	34,609	79,331	107,979	21,807	31,356	–	275,082
Other liabilities	69,107	25,743	6,825	14,599	8,913	1,030	3,340	129,557
Total liabilities	2,835,587	686,973	685,231	1,011,538	277,047	39,219	3,354	5,538,949
(Short)/long position	(2,647,542)	17,385	(42,371)	384,737	910,603	1,135,789	644,761	403,362

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 and debt securities classified as receivables the amount with an indefinite maturity represents loans debt securities classified as receivables 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.

37. 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.

The Group manages its capital structure and adjust it based on the economic condition and the risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy, issue or repurchase shares, other tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio under an approach regulated by CBRC. The Group and the Bank file required information to CBRC half-yearly and quarterly.

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers the Bank's all branches. As at 30 June 2017, 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.

37. Risk management *(continued)*

(e) Capital management *(continued)*

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.

(f) Use of derivatives

Derivatives include forward, swap, option transactions undertaken by the Group in the interest rate and foreign exchange markets, etc. 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 analysis and judgement regarding future interest/exchange rate movements.

In cash flow hedge, the Group uses interest rate swaps as hedging instruments to hedge the interest cash flows arising from the interest risk of RMB loans. The Group is exposed to foreign exchange risk when assets or liabilities denominated in foreign currencies. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

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37. Risk management *(continued)*

(f) Use of derivatives *(continued)*

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.

	30 June 2017						
	Notional amounts with remaining life of					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	433,512	535,392	136,082	1,105	1,106,091	1,757	(1,592)
Currency derivatives							
Forwards	63,556	33,174	7,781	1,553	106,064	1,753	(1,621)
Foreign exchange swaps	462,106	429,273	12,153	–	903,532	6,085	(8,076)
Options	113,576	141,066	7,318	–	261,960	1,427	(4,175)
Subtotal	639,238	603,513	27,252	1,553	1,271,556	9,265	(13,872)
Other derivatives							
Equity options purchased	1,694	7,599	55,479	–	64,772	397	–
Equity options written	1,833	7,679	55,479	–	64,991	–	(397)
Commodity trading	192	–	–	–	192	3	(4)
Subtotal	3,719	15,278	110,958	–	129,955	400	(401)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	6,500	8,900	2,500	–	17,900	11	(112)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	1,110	487	2,150	122	3,869	4	(30)
Currency derivatives							
Foreign exchange swaps	40,348	19,530	10,371	580	70,829	44	(70)
Subtotal	41,458	20,017	12,521	702	74,698	48	(100)
Total						11,481	(16,077)

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37. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	31 December 2016						
	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	378,226	912,033	81,283	1,806	1,373,348	460	(370)
Currency derivatives							
Forwards	71,563	53,900	8,374	–	133,837	2,304	(2,264)
Foreign exchange swaps	398,401	449,680	13,174	–	861,255	4,191	(5,460)
Options purchased	137,775	113,106	4,049	–	254,930	1,508	(2,816)
Subtotal	607,739	616,686	25,597	–	1,250,022	8,003	(10,540)
Other derivatives							
Equity options purchased	1	–	–	–	1	–	–
Equity options written	1	1	–	–	2	–	(1)
Commodity trading	332	–	–	–	332	67	(67)
Subtotal	334	1	–	–	335	67	(68)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	810	11,450	8,500	–	20,760	72	(3)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	910	6,581	7,956	721	16,168	67	(77)
Currency derivatives							
Foreign exchange swaps	2,224	1,462	3,455	–	7,141	19	(94)
	3,134	8,043	11,411	721	23,309	86	(171)
Total						8,688	(11,152)

(Expressed in millions of Renminbi unless otherwise stated)

37. Risk management *(continued)*

(f) Use of derivatives *(continued)*

Credit risk weighted amounts

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts have taken the effects of bilateral netting arrangements into account.

	30 June 2017	31 December 2016
Credit risk weighted assets of counterparties		
Interest rate derivatives	**390**	281
Currency derivatives	**4,723**	5,799
Other derivatives	**1,020**	–
Credit valuation adjustment risk weighted assets	**14,410**	12,293
Total	**20,543**	18,373

Note: The credit risk weighted amounts in respect of derivatives are calculated in accordance with the Administrative Measures on Capital of Commercial Banks (Trial) issued by CBRC, covering default risk weighted assets of counterparties and credit valuation adjustment risk weighted assets. The amount within the scope approved by CBRC in April 2014 was calculated using the internal rating-based approach, and the risk-weighted approach is adopted to calculate those not eligible to the internal rating-based approach.

(g) Fair value information

(i) Financial instruments at fair value

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has established a control framework to govern the measurement of fair values. This includes a valuation team that has responsibility for overseeing all significant fair value measurements including three levels of fair values, and reports directly to the person in charge of accounting affairs.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuation meets the requirements of IFRSs, including the level in the fair value hierarchy in which such valuation should be classified. Significant valuation issues are reported to the Audit Committee of the Board.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at date of financial position on a recurring basis. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest input that is significant to the entire fair value measurement. The levels are defined as follows:

(Expressed in millions of Renminbi unless otherwise stated)

37. Risk management *(continued)*

(g) Fair value information *(continued)*

(i) Financial instruments at fair value (continued)

- 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.

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

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy:

	30 June 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets held for trading				
– Debt securities	**9,287**	**32,135**	**–**	**41,422**
– Long position in precious metal contracts	**–**	**560**	**–**	**560**
– Equity investments	**532**	**–**	**–**	**532**
– Investments in funds	**–**	**218**	**–**	**218**
Subtotal	**9,819**	**32,913**	**–**	**42,732**
Financial assets designated at fair value through profit or loss				
– Debt securities	**5,439**	**4,785**	**–**	**10,224**
Derivative financial assets	**–**	**11,481**	**–**	**11,481**
Available-for-sale financial assets				
– Debt securities	**90,286**	**267,561**	**–**	**357,847**
– Equity investments	**1,451**	**352**	**1,777**	**3,580**
– Investments in funds	**1,390**	**41,203**	**162**	**42,755**
Subtotal	**93,127**	**309,116**	**1,939**	**404,182**
Total	**108,385**	**358,295**	**1,939**	**468,619**

(Expressed in millions of Renminbi unless otherwise stated)

37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

	30 June 2017			
	Level 1	Level 2	Level 3	Total
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	–	9,214	–	9,214
– Short-sell bonds	–	441	–	441
Subtotal	–	9,655	–	9,655
Financial liabilities designated at fair value through profit or loss				
– Precious metal contracts with other banks	–	5,688	–	5,688
– Certificates of deposit issued	–	3,261	–	3,261
– Debt securities issued	5,373	–	–	5,373
– Others	–	18	–	18
Subtotal	5,373	8,967	–	14,340
Derivative financial liabilities	–	16,077	–	16,077
Total	5,373	34,699	–	40,072

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37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading				
– Debt securities	8,073	33,141	–	41,214
– Long position in precious metal contracts	–	1,296	–	1,296
– Equity investments	714	–	–	714
– Investments in funds	–	109	–	109
Subtotal	8,787	34,546	–	43,333
Financial assets designated at fair value through profit or loss				
– Debt securities	4,690	7,949	–	12,639
Derivative financial assets	11	8,677	–	8,688
Available-for-sale financial assets				
– Debt securities	78,321	264,312	–	342,633
– Equity investments	1,496	85	1,715	3,296
– Investments in funds	1,090	41,961	158	43,209
Subtotal	80,907	306,358	1,873	389,138
Total	94,395	357,530	1,873	453,798

(Expressed in millions of Renminbi unless otherwise stated)

37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	–	7,530	–	7,530
– Short position in equity securities	–	–	–	–
Subtotal	–	7,530	–	7,530
Financial liabilities designated at fair value through profit or loss				
– Precious metal contracts with other banks	–	3,498	–	3,498
– Certificates of deposit issued	–	3,595	–	3,595
– Debt securities issued	8,938	–	–	8,938
– Others	–	15	–	15
Subtotal	8,938	7,108	–	16,046
Derivative financial liabilities	621	10,531	–	11,152
Total	9,559	25,169	–	34,728

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

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37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

(1) Basis of determining the market price for recurring fair value measurements categorised within Level 1

Bloomberg's quoted prices are used for financial instruments with quoted prices in an active market.

(2) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurement categorised within Level 2

Fair value of RMB denominated bonds whose value is available on China bond pricing system on the valuation date is measured using the latest valuation results published by China bond pricing system.

Fair value of foreign currency bonds without quoted prices in an active market, is measured by using the comprehensive valuations issued by Bloomberg.

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

(Expressed in millions of Renminbi unless otherwise stated)

37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

	Fair value as at 30 June 2017	Valuation techniques	Unobservable input
Unlisted available-for-sale equity investments	**346**	Market comparison approach	Liquidity discount
Unlisted available-for-sale equity investments	**1,431**	Discounted cash flow	Risk-adjusted discount rate, cash flow
Unlisted available-for-sale fund investments	**162**	Discounted cash flow	Risk-adjusted discount rate, cash flow

	Fair value as at 31 December 2016	Valuation techniques	Unobservable input
Unlisted available-for-sale equity investments	346	Market comparison approach	Liquidity discount
Unlisted available-for-sale equity investments	1,369	Discounted cash flow	Risk-adjusted discount rate, cash flow
Unlisted available-for-sale fund investments	158	Discounted cash flow	Risk-adjusted discount rate, cash flow

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37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

(1) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Derivative financial assets	Available-for-sale financial assets	Total
Assets			
At 1 January 2017	–	1,873	1,873
Profit or loss			
– In profit or loss	–	(56)	(56)
– In other comprehensive income	–	33	33
Purchases	–	104	104
Disposals or settlement on maturity	–	(15)	(15)
At 30 June 2017	–	1,939	1,939
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	(56)	(56)

(Expressed in millions of Renminbi unless otherwise stated)

37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

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

	Derivative financial assets	Available-for-sale financial assets	Total
Assets			
At 1 January 2016	4	1,242	1,246
Profit or loss			
– In profit or loss	–	(5)	(5)
– In other comprehensive income	–	205	205
Purchases	–	435	435
Disposals or settlement on maturity	(4)	(4)	(8)
At 31 December 2016	–	1,873	1,873
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	(5)	(5)

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37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

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

	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued
Liabilities	
At 1 January 2017	–
In profit or loss	–
Issues	–
Disposals or settlement on maturity	–
At 30 June 2017	–
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	–

	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued
Liabilities	
At 1 January 2016	2,302
In profit or loss	121
Issues	–
Disposals or settlement on maturity	(2,423)
At 31 December 2016	–
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	–

(Expressed in millions of Renminbi unless otherwise stated)

37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

(2) The sensitivity of the fair value measurement on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis

The fair value of financial instruments are, in certain circumstances, measured using valuation models which incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 10 per cent of change in fair value to reasonably possible alternative assumptions.

	30 June 2017	
	Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)
Available-for-sale financial assets		
– Equity investments	**178**	**(178)**
– Investments in funds	**16**	**(16)**

	31 December 2016	
	Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)
Available-for-sale financial assets		
– Equity investments	172	(172)
– Investments in funds	16	(16)

(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 period ended 30 June 2017, 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.

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For the Six Months ended 30 June 2017

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37. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

(4) Changes in valuation technique and the reasons for making the changes

During the period ended 30 June 2017, the Group has not changed the valuation technique of the above financial assets which are measured at fair value on a recurring basis.

(iii) Financial assets and financial liabilities that are not measured at fair value

The Group's financial assets not measured at fair value mainly include cash, balances with central banks, balances and placements with banks and other financial institutions, amounts held under resale agreements, loans and advances to customers, held-to-maturity investments and debt securities classified as receivables.

Except for loans and advances and held-to-maturity investments, most of the financial assets will mature within 1 year or have already been 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 16). 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 17(c).

The carrying value, fair value 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 in active market, for example, released by Bloomberg. For Level 2, the latest valuation results released by China bond pricing system are used to measure fair value of bonds denominated in RMB. The Level 2 category also includes foreign currency bonds without active quoted price, which are measured by Bloomberg comprehensive valuation. The Level 3 adopts expected cash flow valuation technique to measure fair value.

(Expressed in millions of Renminbi unless otherwise stated)

37. Risk management *(continued)*

(g) Fair value information *(continued)*

(iii) *Financial assets and financial liabilities that are not measured at fair value* *(continued)*

	30 June 2017					31 December 2016	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Held-to-maturity investments	**516,094**	**511,275**	**3,109**	**508,166**	**–**	477,064	484,277

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 for the subordinated notes issued and long-term debt securities issued.

The carrying value, fair value of subordinated notes issued and long-term debt securities issued are listed as below：

	30 June 2017					31 December 2016	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Subordinated notes issued	**31,324**	**31,246**	**–**	**31,246**	**–**	31,356	32,399
Long-term debt securities issued	**48,552**	**45,179**	**–**	**45,179**	**–**	40,959	40,925
Total	**79,876**	**76,425**	**–**	**76,425**	**–**	72,315	73,324

(Expressed in millions of Renminbi unless otherwise stated)

38. Material related party transactions

(a) Material connected person information

The Bank's main shareholders and its parent company are as follows:

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB13,750 million	7,559,427,375	29.97% (note (i)&(iv))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service, etc.	The largest shareholder's parent company	Limited company	Li Jianhong
China Merchants Steam Navigation Co., Ltd. (CMSNCL)	Beijing	RMB5,900 million	3,289,470,337	13.04% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services, etc.	The largest shareholder	Joint stock limited company	Li Jianhong
Anbang Property & Casualty Insurance Co., Ltd.	Beijing	RMB37,000 million	2,704,596,216	10.72% (note (iii))	–	property damage insurance, liability insurance, credit insurance and guarantee insurance, short-term health insurance and accident insurance, etc.	Shareholder	Joint stock limited company	Wang Yuesheng
China Ocean Shipping (Group) Co., Ltd.	Beijing	RMB16,191 million	1,574,729,111	6.24%	–	Transportation business, shipping space booking, time charter, voyage charter, leasing, constructing and trading ships, etc.	Shareholder	Limited company	Ma Zehua
Shenzhen Yan Qing Investment Development Co., Ltd.	Shenzhen	RMB600 million	1,258,542,349	4.99%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Liu Jie
Shenzhen Chu Yuan Investment and Development Co., Ltd.	Shenzhen	RMB600 million	944,013,171	3.74%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Liu Jie
China Merchants Finance Investment Holdings Co., Ltd.	Shenzhen	RMB600 million	1,147,377,415	4.55%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Hong Xiaoyuan
Best Winner Investment Co., Ltd.	British Virgin Islands	USD0.05 million	386,924,063	1.53%	–	–	Shareholder	Joint stock limited company	–
China Merchants Union (BVI) Limited	British Virgin Islands	USD0.06 million	477,903,500	1.89%	–	–	Shareholder	Limited company	–
China Merchants Industry Development (Shenzhen) Limited	Shenzhen	USD10 million	55,196,540	0.22%	–	Invest and set up industries, enterprise management consulting and investment consulting, etc.	Shareholder	Limited company	Wang Xiaoding

(Expressed in millions of Renminbi unless otherwise stated)

38. Material related party transactions *(continued)*

(a) Material connected person information *(continued)*

Note:

(i) CMG holds 29.97% of the Bank (31 December 2016: 29.97%) through its subsidiaries as at 30 June 2017.

(ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, holds 13.04% of the Bank as at 30 June 2017 (31 December 2016: 13.04%).

(iii) As at 30 June 2017, Anbang Property& Casualty Insurance Company Ltd., holds 10.72% of the share capital of the Bank through traditional product account (31 December 2016:10.72%) and is the second largest shareholder of the Bank.

(iv) Minute difference between the percentage of shares held by CMG of the Bank and the sum of the relative percentages is due to rounding.

The information of registered capital of the related parties as at 30 June 2017 and 31 December 2016 is as below:

Name of related party		30 June 2017		31 December 2016
CMG	RMB	**13,750,000,000**	RMB	13,750,000,000
CMSNCL	RMB	**5,900,000,000**	RMB	5,900,000,000
Anbang Property & Casualty Insurance Co., Ltd.	RMB	**37,000,000,000**	RMB	37,000,000,000
China Ocean Shipping (Group) Co., Ltd.	RMB	**16,191,351,300**	RMB	16,191,351,300
Shenzhen Yan Qing Investment Development Co., Ltd.	RMB	**600,000,000**	RMB	600,000,000
Shenzhen Chu Yuan Investment and Development Company Ltd.	RMB	**600,000,000**	RMB	600,000,000
China Merchants Finance Investment Holdings Co., Ltd.	RMB	**600,000,000**	RMB	600,000,000
Best Winner Investment Ltd.	USD	**50,000**	USD	50,000
China Merchants Union (BVI) Ltd.	USD	**60,000**	USD	60,000
China Merchants Industry Development (Shenzhen) Co., Ltd.	USD	**10,000,000**	USD	10,000,000

(Expressed in millions of Renminbi unless otherwise stated)

38. Material related party transactions *(continued)*

(b) Transaction terms and conditions

In each period, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The opinion of the directors is that the Group's material related-party transactions were all entered on normal commercial terms. The banking transactions 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:

	30 June 2017	31 December 2016
Short-term loans	**4.35%**	4.35%
Medium to long-term loans	**4.75% to 4.90%**	4.75% to 4.90%
Demand deposits	**0.35%**	0.35%
Time deposits	**1.10% to 2.75%**	1.10% to 2.75%

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the reporting period.

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 29.97% (31 December 2016: 29.97%) shares of the Bank as at 30 June 2017 (among them 13.04% shares is held by CMSNCL (31 December 2016: 13.04%)).

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

	30 June 2017	31 December 2016
On-balance sheet:		
– Loans and advances to customers	**9,992**	8,482
– Investments	**4,565**	3,662
– Deposits from customers	**53,496**	100,553
Off-balance sheet:		
– Irrevocable guarantees	**1,565**	2,135
– Irrevocable letters of credit	**241**	213
– Bills of acceptances	**230**	222
– Factoring	**–**	5

(Expressed in millions of Renminbi unless otherwise stated)

38. Material related party transactions *(continued)*

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

	Six months ended 30 June	
	2017	2016
Interest income	**439**	296
Interest expense	**390**	573
Net fee and commission income	**247**	364
Other net loss	**(234)**	(1)

(d) Companies controlled by directors and supervisors other than those under Note 38(c) above

	30 June 2017	31 December 2016
On-balance sheet:		
– Loans and advances to customers	**3,685**	3,659
– Investments	**1,884**	955
– Deposits from customers	**28,150**	21,448
Off-balance sheet:		
– Irrevocable guarantees	**629**	2,671
– Bills of acceptances	**74**	152

	Six months ended 30 June	
	2017	2016
Interest income	**187**	146
Interest expense	**261**	306
Net fee and commission income	**56**	68
Other net income/(loss)	**33**	(13)

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38. Material related party transactions *(continued)*

(e) Associates and joint ventures other than those under Note 38(c) above

	30 June 2017	31 December 2016
On-balance sheet:		
– Loans and advances to customers	**2,741**	3,047
– Placements with banks and other financial institutions	**2,000**	3,700
– Deposits from customers	**472**	921
Off-balance sheet:		
– Irrevocable guarantees	**8,700**	8,701

	Six months ended 30 June	
	2017	2016
Interest income	**25**	6
Interest expense	**9**	3
Net Fee and commission income	**644**	531
Other net income	**5**	4

(f) Other shareholders holding more than 5% shares of the Bank

	30 June 2017	31 December 2016
On-balance sheet:		
– Loans and advances to customers	**5,832**	5,572
– Investments	**200**	200
– Deposits from customers	**13,707**	16,328
Off-balance sheet:		
– Irrevocable guarantees	**5,883**	5,627

	Six months ended 30 June	
	2017	2016
Interest income	**28**	8
Interest expense	**249**	120
Net fee and commission income	**686**	1,032
Other net loss	**(13)**	–

(Expressed in millions of Renminbi unless otherwise stated)

39. Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the subsidiaries. There is no subsidiary of the Group which has material non-controlling interests during the reporting period.

The perpetual capital instrument is issued by the bank's subsidiary, WLB, on 27th April 2017, with the aggregate nominal amount is USD170 million as follows:

	Principal	Distributions	Total
At 1 January 2017	–	–	–
Issues during the period (i)	1,170	–	1,170
At 30 June 2017	1,170	–	1,170

(i) There is no maturity of the instruments and the payments of distribution can be cancelled at the discretion of the issuers. Cancelled distribution is not cumulative. When the issuers elect to declare dividends, the distribution to the holders of perpetual capital instruments shall be made at the distribution rate as defined in the subscription agreements.

40. Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitisation of credit assets

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. Except for those finance leases receivable mentioned below, During the six months ended 30 June 2017, as the Group has transferred the ownership of the loans amounted to RMB1,699 million (for the six months ended 30 June 2016: 6,442 million), as well as substantially all the risks and rewards of the loans have been transferred, the full amount of such securitised loans were derecognised.

As the underlying assets, certain finance leases receivable did not meet the criteria of derecognition, the Group did not derecognize such finance leases receivable, the consideration received was treated as financial liabilities. As at 30 June 2017, the carrying amount of such transferred but not recognised finance leases receivable amounted to RMB5,178 million (31 December 2016: RMB2,646 million) and correspondently the carrying amount of recognised financial liabilities is RMB4,391 million (31 December 2016: RMB2,227 million).

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities, discounted bills held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

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41. Interests in unconsolidated structured entities

(a) Interests in the structured entities sponsored by third party institutions

The Group holds interests in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include wealth management products, asset management schemes, trust beneficiary rights, assets backed securities and investments in funds, and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 30 June 2017 and 31 December 2016 in the structured entities sponsored by third party institutions and an analysis of the line items in the statement of financial position as at 30 June 2017 and 31 December 2016 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2017						
	Carrying amount						
	Amounts held under resale agreements	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total	Maximum exposure
Wealth management products	–	–	–	–	21,003	21,003	21,003
Asset management schemes	1,046	–	–	–	435,613	436,659	436,659
Trust beneficiary rights	–	–	–	–	104,639	104,639	104,639
Asset backed securities	–	–	3,705	1,943	55	5,703	5,703
Investment in funds	–	218	42,755	–	3,500	46,473	46,473
Total	1,046	218	46,460	1,943	564,810	614,477	614,477

	31 December 2016						
	Carrying amount						
	Amounts held under resale agreements	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total	Maximum exposure
Wealth management products	–	–	–	–	55,216	55,216	55,216
Asset management schemes	1,050	–	–	–	369,168	370,218	370,218
Trust beneficiary rights	52	–	–	–	83,548	83,600	83,600
Asset backed securities	–	224	3,847	2,187	118	6,376	6,376
Investment in funds	–	109	43,209	–	–	43,318	43,318
Total	1,102	333	47,056	2,187	508,050	558,728	558,728

41. Interests in unconsolidated structured entities *(continued)*

(a) Interests in the structured entities sponsored by third party institutions *(continued)*

The maximum exposures held by the Group in the investments in funds, wealth management products, asset management schemes, trust beneficiary rights, assets backed securities are the amortised cost or fair value of the assets held by the Group at the reporting date in accordance with the line items of these assets recognised in the consolidated statement of financial position.

(b) Interests in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal- guaranteed wealth management products, funds and custodian plan. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of investment products to investors. Interest held by the Group includes fees charged on management services provided.

As at 30 June 2017, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB2,128,102 million (31 December 2016: RMB2,375,766 million).

As at 30 June 2017, the amount of the unconsolidated mutual funds, which are sponsored by the Group, is RMB369,121 million (31 December 2016: RMB345,450 million).

As at 30 June 2017, the amount of the unconsolidated asset management schemes, which are sponsored by the Group, is RMB309,225 million (31 December 2016: RMB352,446 million).

As at 30 June 2017, the balance of amounts held under resale agreements and placement with banks and other financial institutions between the Group and its non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB173,192 million (31 December 2016: RMB274,393 million) and RMB13,404 million (31 December 2016: RMB50,283 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During the six months ended 30 June 2017, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB6,455 million (for the six months ended 30 June of 2016: RMB9,839 million).

During the six months ended 30 June 2017, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB543 million (for the six months ended 30 June 2016: RMB560 million).

41. Interests in unconsolidated structured entities *(continued)*

(b) Interests in the unconsolidated structured entities sponsored by the Group *(continued)*

During the six months ended 30 June 2017, the amount of management fee income received from the unconsolidated asset management schemes by the Group is RMB516 million (for the six months ended 30 June of 2016: RMB445 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2017 with a maturity date before 30 June 2017 was RMB1,221,479 million (for the six months ended 30 June 2016: RMB1,179,554 million).

42. Subsequent event

The Bank proposes to conduct a non-public issuance of preference shares in domestic and offshore markets with an aggregate amount of not more than RMB35 billion. Of which, the amount of Preference Shares proposed to be issued in the domestic market will not exceed RMB27.5 billion while the amount of Preference Shares proposed to be issued in the offshore market will not exceed RMB7.5 billion or its equivalent, and it has been approved by the China Banking Regulatory Commission.

The Bank propose to make an additional capital contribution of RMB605 million to CMFM and the shareholding percentage of the Bank remains unchanged. The Bank propose to make an additional capital contribution of RMB600 million to Merchants Union Consumer Finance Company Limited and the shareholding percentage of the Group remains unchanged. Both of the additional capital contribution are waiting for the approval of regulatory.

Except the event above, up to the date of approval of the interim financial report, the Group has no other material events that require disclosure in or adjustments of the interim financial report after 30 June 2017.

43. Comparative figures

During the six months ended 30 June 2017, the Group has reclassified profit and losses on the changes in fair value related to precious metals and reclassified the liabilities and interest expense of transactions with central bank from amounts sold under repurchase agreements to borrowing from central bank; and has restated the corresponding comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the *CBRC's Administrative Measures on the Capital of Commercial Banks (Trial)* issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

In accordance with the advanced capital management approach approved by CBRC in April 2014, the Group calculated core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	30 June 2017	31 December 2016
Core tier-1 capital adequacy ratio	**12.42%**	11.54%
Tie-1 capital adequacy ratio	**12.42%**	11.54%
Capital adequacy ratio	**14.59%**	13.33%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**65,856**	68,600
Surplus reserves	**39,679**	39,678
Regulatory general reserve	**68,082**	67,839
Retained profits	**218,189**	197,947
Qualifying portion of non-controlling interests	**367**	303
Others (note (i))	**637**	1,625
Total core tier-1 capital	**418,030**	401,212
Regulatory deductions from core tier-1 capital	**12,487**	12,450
Net core tier-1 capital	**405,543**	388,762
Other tier-1 capital (note (ii))	**19**	18
Net tier-1 capital	**405,562**	388,780
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**30,000**	30,000
Surplus provision for loans impairment	**40,132**	29,299
Qualifying portion of non-controlling interests	**1,029**	1,037
Total tier-2 capital	**71,161**	60,336
Regulatory deductions from core tier-2 capital	**–**	–
Net tier-2 capital	**71,161**	60,336
Net capital	**476,723**	449,116
Total risk-weighted assets	**3,266,377**	3,368,990

Notes:

(i) Others represent exchange reserve of foreign currency financial statements under CBRC's Administrative Measures on the Capital of Commercial Banks (Trial).

(ii) The Group's other tier-1 capital is qualifying portion of non-controlling interests.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio *(continued)*

On 30 June 2017, 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 9.98%, tier-1 capital adequacy ratio is 9.98%, capital adequacy ratio is 11.85%, net capital is RMB481,588 million and total risk-weighted assets is RMB4,063,482 million.

(B) Leverage ratio

In accordance with the CBRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio and relevant components as at 30 June 2017 were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries.

Summary comparison of accounting assets and leverage ratio exposure measure:

	30 June 2017	31 December 2016
Total consolidated assets as per published financial statements	**6,199,690**	5,942,311
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(4,058)**	(3,615)
Adjustments for fiduciary assets	**–**	–
Adjustments for derivative financial instruments	**27,235**	19,680
Adjustment for securities financing transactions	**24,657**	15,066
Adjustment for off-balance sheet items	**723,692**	797,101
Other adjustments	**(12,487)**	(12,450)
Balance of adjusted on-balance sheet and off-balance sheet assets	**6,958,729**	6,758,093

(Expressed in millions of Renminbi unless otherwise stated)

(B) Leverage ratio *(continued)*

Leverage ratio, net tier-1 capital, on-balance sheet and off-balance sheet exposures and other information:

	30 June 2017	31 December 2016
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	**5,966,961**	5,651,310
Less: Asset amounts deducted in determining Basel III Tier 1 capital	**(12,487)**	(12,450)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	**5,954,474**	5,638,860
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	**10,632**	14,851
Add-on amounts for potential future exposure associated with all derivatives transactions	**26,243**	12,140
Gross-up for derivatives collateral provided where deducted from the balance sheet assets	**–**	–
Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	**–**	–
Less: Exempted central counterparty leg of client-cleared trade exposures	**–**	–
Effective notional amount of written credit derivatives	**1,841**	1,377
Less: Adjusted effective notional deductions for written credit derivatives	**–**	–
Total derivative exposures	**38,716**	28,368
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**216,461**	278,699
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**–**	–
Counterparty credit risk exposure for SFT assets	**25,386**	15,066
Agent transaction exposures	**–**	–
Total securities financing transaction exposures	**241,847**	293,765
Off-balance sheet exposure at gross notional amount	**7,236,920**	7,971,005
Less: Adjustments for conversion to credit equivalent amounts	**(6,513,228)**	(7,173,905)
Balance of adjusted off-balance sheet assets	**723,692**	797,100
Net tier 1 capital	**405,562**	388,780
Balance of adjusted on-balance sheet and off-balance sheet assets	**6,958,729**	6,758,093
Leverage ratio	**5.83%**	5.75%

Unaudited Supplementary Financial Information

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(C) Liquidity coverage ratio

In accordance with CBRC's Administrative Measures on Liquidity Coverage Ratio of Commercial Banks effective on 31 December 2015, the Group's liquidity coverage ratio and relevant components as at 30 June 2017 were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries. For the quarter ended 30 June 2017, the Group's liquidity coverage ratio was as follows:

	Quarter ended 30 June 2017		Quarter ended 31 December 2016	
	Unweighted amount (Average value)	**Weighted amount (Average value)**	Unweighted amount (Average value)	Weighted amount (Average value)
High quality liquid assets				
Total high quality liquid assets (HQLA)		**610,314**		637,522
Cash outflows				
Retail deposits and small business funding, of which:	**1,511,775**	**118,631**	1,506,046	140,001
Stable deposits	**650,928**	**32,546**	212,072	10,604
Less stable deposits	**860,847**	**86,085**	1,293,974	129,397
Unsecured wholesale funding, of which:	**2,698,819**	**1,088,098**	2,566,731	1,076,471
Business relations deposits(excluding correspondent banks operations)	**1,416,684**	**351,176**	1,232,010	306,159
Non-business relations deposits (including all the counterparties)	**1,234,547**	**689,334**	1,333,629	769,220
Liabilities and obligations arising from unsecured funding	**47,588**	**47,588**	1,092	1,092
Secured funding		**45,667**		49,960
Additional requirements, of which:	**669,119**	**64,623**	601,617	69,092
Cash outflows arising from derivative contracts and other transactions arising from related collateral requirements	**27,869**	**27,674**	36,889	36,697
Cash outflows arising from secured debt instruments funding	**–**	**–**	–	–
Committed credit facilities and committed liquidity facilities	**641,250**	**36,949**	564,728	32,395
Other contractual lending obligations	**41,473**	**41,473**	38,540	38,540
Other contingent funding obligations	**2,752,804**	**20,237**	2,227,769	26,091
Total cash outflows		**1,378,729**		1,400,155

(Expressed in millions of Renminbi unless otherwise stated)

(C) Liquidity coverage ratio *(continued)*

	Quarter ended 30 June 2017		Quarter ended 31 December 2016	
	Unweighted amount (Average value)	Weighted amount (Average value)	Unweighted amount (Average value)	Weighted amount (Average value)
Cash inflows				
Secured lending transactions (including reverse repurchase agreements and securities borrowed)	**114,250**	**114,250**	179,520	179,520
Cash inflows from fully honoured payments	**808,082**	**497,698**	945,283	618,785
Other cash inflows	**29,671**	**28,194**	38,545	37,774
Total cash inflows	**952,003**	**640,142**	1,163,348	836,079
		Adjusted value		Adjusted value
TOTAL HQLA		**610,314**		637,522
TOTAL NET CASH OUTFLOWS		**738,587**		564,076
LCR (%)[i]		**82.63%**		114.59%

Note:

(i) The data of Mainland China in the above table is a simple arithmetic average of the 90-day value for the latest quarter and the monthly average for the date of subsidiaries.

(ii) The HQLA in the above table are prepared by the central bank reserve available under cash and pressure conditions, as well as the bond in line with the definition of Tier 1 and Tier 2 assets set by Administrative Measures on Liquidity of Commercial Banks (Trial).

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(Expressed in millions of Renminbi unless otherwise stated)

(D) International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims in foreign currencies on third parties within the Mainland China as international claims.

International claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills, certificates of deposit and securities investment.

International claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk is transferred only when the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	30 June 2017			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Foreign currencies transactions in Mainland China	**106,348**	**6,672**	**94,156**	**207,176**
Asia Pacific excluding Mainland China	**35,073**	**47,629**	**142,573**	**225,275**
– of which attributed to Hong Kong	**26,081**	**47,606**	**133,076**	**206,763**
Europe	**20,763**	**1,143**	**6,053**	**27,959**
North and South America	**19,057**	**2,345**	**20,611**	**42,013**
	181,241	**57,789**	**263,393**	**502,423**

	31 December 2016			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	80,537	2,904	97,458	180,899
Asia Pacific excluding Mainland China	38,097	20,897	155,247	214,241
– of which attributed to Hong Kong	19,920	20,857	144,295	185,072
Europe	16,384	1,929	5,320	23,633
North and South America	12,571	850	46,553	59,974
	147,589	26,580	304,578	478,747

(Expressed in millions of Renminbi unless otherwise stated)

(E) Overdue loans and advances to customers

(i) By geographical segments

	30 June 2017	31 December 2016
Headquarters	**5,606**	5,338
Yangtze River Delta region	**8,179**	8,731
Bohai Rim region	**5,754**	4,463
Pearl River Delta and West Coast region	**6,756**	6,126
Northeast region	**3,306**	2,730
Central region	**5,499**	6,492
Western region	**12,396**	12,677
Subsidiaries	**966**	1,316
	48,462	47,873

(ii) By overdue period

	30 June 2017	31 December 2016
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	**6,614**	8,892
– between 6 and 12 months (inclusive)	**11,406**	15,388
– over 12 months	**30,442**	23,593
Total	**48,462**	47,873
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	**0.19%**	0.27%
– between 6 and 12 months (inclusive)	**0.32%**	0.47%
– over 12 months	**0.86%**	0.72%
Total	**1.37%**	1.46%

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(Expressed in millions of Renminbi unless otherwise stated)

(E) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	30 June 2017	31 December 2016
Secured portion of overdue loans and advances	**12,234**	13,961
Unsecured portion of overdue loans and advances	**36,228**	33,912
Value of collateral held against overdue loans and advances	**13,074**	19,168
Provision of overdue loans and advances for which impairment losses are individually assessed	**29,790**	23,332

The amount of the Group's overdue loans and advances to financial institutions as at 30 June 2017 was RMB1 million (31 December 2016: RMB1 million).

Note:

The above analysis represents loans and advances overdue for more than 90 days as required and defined by the Hong Kong Monetary Authority (the "HKMA").

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular installments, if part of the installments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collateral of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

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(Expressed in millions of Renminbi unless otherwise stated)

(F) Rescheduled loans and advances to customers

	30 June 2017		31 December 2016	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	**18,297**	**0.52%**	16,671	0.51%
Less: – rescheduled loans and advances overdue more than 90 days	**10,316**	**0.29%**	8,605	0.26%
Rescheduled loans and advances overdue less than 90 days	**7,981**	**0.23%**	8,066	0.25%

The amount of the Group's rescheduled loans and advances to financial institutions as at 30 June 2017 was RMB1 million (31 December 2016: RMB1 million).

(G) Non-bank Mainland China exposures

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 30 June 2017 and 31 December 2016, most of the Bank's exposures arose from businesses with Mainland non-bank institutions or individuals. Analysis of various types of exposure by counterparty have been disclosed in the notes to the interim financial report.

(H) Currency concentrations other than RMB

	30 June 2017			
	USD	HKD	Others	Total
		(in millions of RMB)		
Non-structural position				
Spot assets	**550,804**	**256,585**	**75,978**	**883,367**
Spot liabilities	**(652,069)**	**(211,516)**	**(75,214)**	**(938,799)**
Forward purchased	**559,662**	**48,949**	**120,912**	**729,523**
Forward written	**(420,538)**	**(56,172)**	**(122,395)**	**(599,105)**
Net option position	**(20,982)**	**(1,650)**	**(1,593)**	**(24,225)**
Net long position	**16,877**	**36,196**	**(2,312)**	**50,761**
Net structural position	**4,255**	**(29,104)**	**471**	**(24,378)**

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(Expressed in millions of Renminbi unless otherwise stated)

(H) Currency concentrations other than RMB *(continued)*

	31 December 2016			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	622,831	241,063	76,138	940,032
Spot liabilities	(666,434)	(207,309)	(75,224)	(948,967)
Forward purchased	741,635	63,786	79,067	884,488
Forward written	(630,853)	(59,094)	(75,022)	(764,969)
Net option position	(48,662)	(4,180)	(1,706)	(54,548)
Net long position	18,517	34,266	3,253	56,036
Net structural position	(10,483)	(30,218)	(509)	(41,210)

The net option position is calculated using the delta equivalent approach required by the HKMA. The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investment properties, property and equipment, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

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