



為民而生 與民共生

2017 INTERIM REPORT



(a joint stock limited company incorporated in the People's Republic of China)

Stock Code : 01988

USD Preference Shares Stock Code : 04609

Important Notice

The Board, the Supervisory Board, the Directors, Supervisors and Senior Management of the Company warrant that there are no misstatements, misleading representations or material omissions in this report, and shall assume several and joint liability for the truthfulness, accuracy and completeness of its contents.

This Interim Report was considered and approved on 28 August 2017 at the fifth meeting of the seventh session of the Board of the Company. Of the 18 Directors who were entitled to attend the meeting, nine Directors attended the meeting in person, eight Directors, being the Vice Chairmen Zhang Hongwei and Liu Yonghao as well as the Directors Wu Di, Weng Zhenjie, Cheng Hoi-chuen, Liu Jipeng, Xie Zhichun and Peng Xuefeng, attended the meeting by teleconference, and the Director Shi Yuzhu entrusted the Chairman Hong Qi, in writing, to exercise his voting rights at the meeting. Of the nine Supervisors who were entitled to attend the meeting, nine Supervisors attended the meeting in person.

According to the interim profit distribution plan for 2017 passed by the Board, on the basis of the total share capital of the Company as at the record date for the purpose of profit distribution, a cash dividend of RMB1.20 (before tax) for every 10 shares will be distributed to shareholders of the Company.

For the purpose of this Interim Report, China Minsheng Banking Corp., Ltd. shall be referred to as the “Company”, the “Bank”, “China Minsheng Bank” or “Minsheng Bank”, whereas China Minsheng Banking Corp., Ltd. and its subsidiaries together shall be referred to as the “Group”.

The financial data and indicators contained in this Interim Report are prepared in accordance with the IFRS. Unless otherwise specified, all amounts are the consolidated data of the Group and are denominated in RMB.

The interim financial report of the Company was not audited.

Board of Directors
China Minsheng Banking Corp., Ltd.

Hong Qi (Chairman), Zheng Wanchun (President), Bai Dan (Senior Management responsible for finance and accounting) and Li Wen (Person in charge of the accounting department) warrant the truthfulness, accuracy and completeness of the financial statements included in this Interim Report.

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Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Bank” or “Company” or “China Minsheng Bank” or “Minsheng Bank”	China Minsheng Banking Corp., Ltd.
“Board”	board of directors of the Company
“CBRC”	China Banking Regulatory Commission
“CMBC International”	CMBC International Holdings Limited
“CSRC”	China Securities Regulatory Commission
“Director”	director of the Company
“Group”	the Company and its subsidiaries
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on SEHK
“Minsheng Financial Leasing”	Minsheng Financial Leasing Co., Ltd.
“Minsheng Royal Asset Management”	Minsheng Royal Asset Management Co., Ltd.
“Minsheng Royal Fund”	Minsheng Royal Fund Management Co., Ltd.
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“PBOC”	People’s Bank of China

Definitions

“Phoenix Project” (鳳凰計劃)	a comprehensive customer-oriented project for strategic transformation and restructuring of the Company in response to the liberalization of interest rate
“Reporting Period”	the period from 1 January 2017 to 30 June 2017
“SBU(s)”	strategic business unit(s)
“SEHK”	The Stock Exchange of Hong Kong Limited
“Senior Management”	senior management of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SSE”	Shanghai Stock Exchange
“Supervisor”	supervisor of the Company
“Supervisory Board”	supervisory board of the Company

Bank Profile

- Registered Chinese Name of the Company: 中國民生銀行股份有限公司
(Abbreviation: 「中國民生銀行」)
Registered English Name of the Company: CHINA MINSHENG BANKING CORP., LTD.
(Abbreviation: “CMBC”)
- Legal Representative of the Company: Hong Qi
- Authorized Representatives of the Company: Xie Zhichun
Wong Wai Yee, Ella
- Board Secretary: Fang Zhou
Joint Company Secretaries: Fang Zhou
Wong Wai Yee, Ella
Representative of Securities Affairs: Wang Honggang
- Mailing Address: China Minsheng Bank Building,
No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China
Postal Code: 100031
Telephone: 86-10-58560666
Facsimile: 86-10-58560720
Email: cmbc@cmbc.com.cn
- Registered Address: No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China
Postal Code: 100031
Website: www.cmbc.com.cn
Email: cmbc@cmbc.com.cn
- Branch Office and Place of Business in Hong Kong: 40/F and 4106-08, 41/F, Two International Finance Centre,
8 Finance Street, Central, Hong Kong
- Newspapers Selected by the Company for Information Disclosure: China Securities Journal, Shanghai Securities News and Securities Times
Website for Publishing the A Share Interim Report Designated by the CSRC: www.sse.com.cn
Website for Publishing the H Share Interim Report Designated by the SEHK: www.hkexnews.hk
Place of Collection of the Interim Report: The Office of the Board of the Company

Bank Profile

9. Legal Adviser as to PRC Law: Grandall Law Firm, Beijing Office
 Legal Adviser as to Clifford Chance
 Hong Kong Law:
10. Domestic Accounting Firm: KPMG Huazhen LLP
 Office Address: 8th Floor, KPMG Tower Oriental Plaza,
 No. 1 East Chang An Avenue, Beijing, China
 International Accounting Firm: KPMG Certified Public Accountants
 Office Address: 8th Floor, Prince's Building, 10 Chater Road,
 Central, Hong Kong
11. A Share Registrar: China Securities Depository and Clearing Corporation Limited
 (Shanghai Branch)
 Office Address: 36/F, China Insurance Building,
 No. 166 Lujiazui East Road, New Pudong District,
 Shanghai, China
 H Share Registrar: Computershare Hong Kong Investor Services Limited
 Office Address: Shops 1712–1716, 17th Floor, Hopewell Centre,
 183 Queen's Road East, Wanchai, Hong Kong
12. Places of Listing, Stock Names and Stock Codes:
- | | | |
|----------------------------|-----------------|-------------|
| A Share: | Stock Name: | Stock Code: |
| SSE; | MINSHENG BANK; | 600016 |
| H Share: | Stock Name: | Stock Code: |
| SEHK; | MINSHENG BANK; | 01988 |
| Offshore Preference Share: | Stock Name: | Stock Code: |
| SEHK; | CMBC 16USDPREF; | 04609 |
13. Initial Date of Registration: 7 February 1996
 Initial Place of Registration: No. 4 Zhengyi Road, Dongcheng District, Beijing, China
14. Date of Registration for 20 November 2007
 Subsequent Change:
 Place of Registration: No. 2 Fuxingmennei Avenue, Xicheng District, Beijing, China
15. Unified Social Credit Code: 91110000100018988F

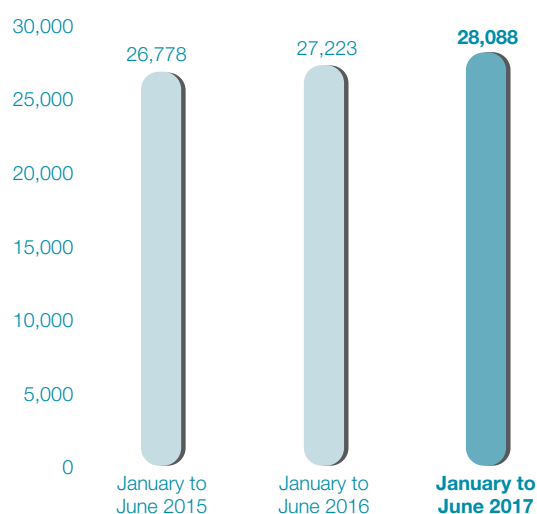
Summary of Accounting Data and Financial Indicators

I. Major Accounting Data and Financial Indicators

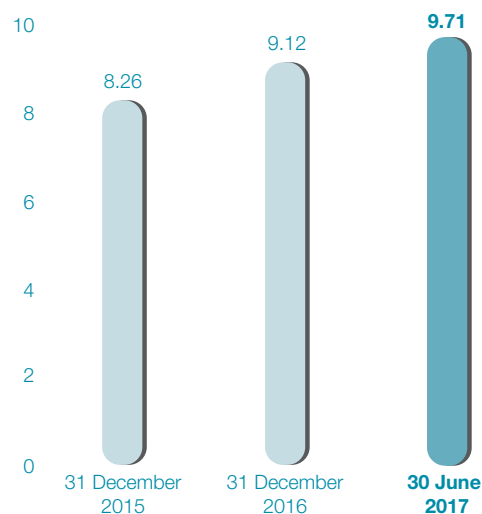
	January to June 2017	January to June 2016	Changes of the Reporting Period over the corresponding period of the previous year	January to June 2015
			Increase/ decrease (%)	
Operating results (RMB million)				
Net interest income	41,115	47,438	-13.33	46,994
Net non-interest income	28,789	29,951	-3.88	29,618
Operating income	69,904	77,389	-9.67	76,612
Operating expenses	18,314	21,446	-14.60	26,072
Impairment losses on loans and advances	16,330	20,816	-21.55	14,342
Profit before income tax	34,451	35,181	-2.07	35,529
Net profit attributable to equity shareholders of the Company	28,088	27,223	3.18	26,778
Net cash flow from operating activities	-368,013	728,563	Negative for this period	77,083
Data per share (RMB)				
Basic earnings per share	0.77	0.75	2.67	0.78
Diluted earnings per share	0.77	0.75	2.67	0.74
Net cash flow per share from operating activities	-10.09	19.97	Negative for this period	2.11
Profitability indicators (%)				
Return on average assets (annualized)	0.98	1.13	-0.15	1.31
Return on weighted average equity (annualized)	16.23	17.49	-1.26	20.98
Cost-to-income ratio	25.12	23.20	1.92	27.44
Net fee and commission income to operating income ratio	35.02	36.26	-1.24	32.82
Net interest spread	1.27	1.88	-0.61	2.19
Net interest margin	1.40	2.01	-0.61	2.35

Summary of Accounting Data and Financial Indicators

Net profit attributable to equity shareholders of the Company (RMB million)



Net assets per share attributable to ordinary shareholders of the Company (RMB)



	30 June 2017	31 December 2016	Changes from the end of the previous year to the end of the Reporting Period	31 December 2015
Scale indicators (RMB million)			Increase/decrease (%)	
Total assets	5,767,209	5,895,877	-2.18	4,520,688
Total balance of loans and advances to customers	2,706,294	2,461,586	9.94	2,048,048
Total liabilities	5,392,687	5,543,850	-2.73	4,210,905
Deposits from customers	3,023,127	3,082,242	-1.92	2,732,262
Share capital	36,485	36,485	—	36,485
Total equity attributable to equity shareholders of the Company	364,195	342,590	6.31	301,218
Total equity attributable to ordinary shareholders of the Company	354,303	332,698	6.49	301,218
Net assets per share attributable to ordinary shareholders of the Company (RMB)	9.71	9.12	6.47	8.26
Assets quality indicators (%)			Changes in Percentage points	
Impaired loans ratio	1.69	1.68	0.01	1.60
Provision coverage ratio	153.33	155.41	-2.08	153.63
Provision for total loans ratio	2.58	2.62	-0.04	2.46
Capital adequacy ratio indicators (%)			Changes in Percentage points	
Core tier-one capital adequacy ratio	9.18	8.95	0.23	9.17
Tier-one capital adequacy ratio	9.46	9.22	0.24	9.19
Capital adequacy ratio	11.91	11.73	0.18	11.49
Total equity to total assets ratio	6.49	5.97	0.52	6.85

Summary of Accounting Data and Financial Indicators

Notes:

1. Return on average assets = Net profit/average balance of total assets at the beginning and the end of the period.
2. Return on weighted average equity: Calculated according to the Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) (《公開發行證券的公司信息披露編報規則第9號 – 淨資產收益率和每股收益的計算及披露》(2010年修訂)) promulgated by the CSRC.
3. Cost-to-income ratio = (Operating and other operating expenses – tax and surcharges)/operating income.
4. Net interest spread = Average return ratio on interest-earning assets – average cost ratio of interest-bearing liabilities.
5. Net interest margin = Net interest income/average balance of interest-earning assets.
6. Impaired loans ratio = Balance of impaired loans/total balance of loans and advances to customers.
7. Provision coverage ratio = Allowance for impairment losses on loans/balance of impaired loans.
8. Provision for total loans ratio = Allowance for impairment losses on loans/total balance of loans and advances to customers.

II. Supplementary Accounting Data and Financial Indicators

(Unit: %)

Major Indicators	Benchmark	30 June	31 December	31 December	
		2017	2016	2015	
Liquidity ratios	Consolidated in RMB	≥25	43.17	39.64	44.72

Note: The above data are information of the Company. The indicators were calculated based on the relevant regulations of the China banking regulators.

Discussion and Analysis on Business Operation

I. Review of Economic and Financial Conditions and Government Policies

In the first half of 2017, the global economy picked up its growth momentum steadily. While most of the developed economies were rallying, China and India continued to lead the growth among other emerging economies. Nonetheless, the economic recovery in different parts of the world continued to vary, and strong structural growth has yet to emerge. There was apparent divergence among the monetary policies implemented by the central banks of different countries. It was anticipated that the Federal Reserve System (FED) might start to shrink its balance sheet in the second half of 2017 at the earliest, which would have great impacts on the global economic and financial situation. The effect of the unconventional monetary policies adopted by the European Central Bank has gradually emerged. However, there was still risk when the monetary policies return to normal in the future. The imbalanced progress of economic recovery and the divergence of monetary policies among different countries had multiple impacts on the economic and financial environments of China through changes in external demand, capital flow, fluctuations in exchange rates and price transmission.

In the first half of 2017, the general economy of China continued its steady growth since the second half of 2016, with the traditional momentum and new growth drivers further strengthened. Various macro-economic indicators saw improvement, whereas the micro-economic foundation was further consolidated. The economic structure was optimized, signaling a good opening for the general development. The fiscal policy remained proactive, and the monetary policy was prudent and neutral. The market liquidity was basically stable. Since 2017, the PBOC has reinforced the market expectation for a prudent and neutral monetary policy by not only raising the policy interest rate in a timely manner but also tightening the regulation of the financial industry. Due to the increasingly stringent regulation and control, the overall market interest rate increased with more significant fluctuations. The development of banking industry also faced various challenges, such as weak growth in deposit, increasing difficulties in growing stable liabilities with low cost, more complicated liquidity management and intensifying pressure on capital replenishment. It became critical for the banking industry to carry out structural reform and enhance the corporate governance so as to improve its overall adaptability and services to the real economy.

Discussion and Analysis on Business Operation

To proactively cope with the changes in business environment and effectively support the development of real economy, the Company has adopted the following measures and achieved good results:

1. The Company emphasized the importance of the law and compliance management and development of corporate culture in its sustainable development. It pushed forward the formulation of Vision, Core Values and Operational Rules of China Minsheng Bank (《中國民生銀行發展願景、核心價值觀及運行準則》), established the Corporate Culture Management Committee, set out the Three-Year Plan for the Development of Corporate Culture (《企業文化建設三年規劃》), promoted the publicity of Minsheng DNA (《民生DNA》) and encouraged all employees to act accordingly. The Company also issued the Three-Year Development Outline for the Compliance Management of China Minsheng (《法治民生建設三年綱要》) to highlight the awareness of compliance in pursuit of a law-abiding and compliance culture to “respect, learn, abide and practice” the relevant rules and regulations.
2. The Company highly valued strategic guidelines. The Medium-to-Long Term Development Strategies of China Minsheng Bank for 2016–2025 (《中國民生銀行中長期發展戰略(2016–2025)》) were improved and implemented, and the Development Plan of China Minsheng Bank for 2017–2019 (《中國民生銀行2017–2019年發展規劃》) was put into operation, which further improved the Company’s strategic management system.
3. Further progress was made in the strategic reform of the Company. Fruitful results were achieved under the promotions of various reforms with the Phoenix Project being the key link. The Company has also seen preliminary results in the change of growth model, the improvement of operational efficiency and the reinforcement of the foundation for future development. The Company has put more efforts in the promotion and implementation of the first two phases of the Phoenix Project to enhance process management and optimize internal advisory system to facilitate the effective implementation of the third phase of the Phoenix Project.
4. Supporting measures were put in place for the implementation of business reform. Significant progress was achieved in the major reforms in Investment Banking Department, Internet Finance Department and Group Finance SBU. Core reforms were also conducted in the profit model of interbank business and assets management, which had transformed the management model of interbank assets and liabilities. Performance incentive mechanism was improved to boost productivity and foster new business growth points.

Discussion and Analysis on Business Operation

5. The Company further optimized its customer base and income structure. The Company continued to optimize its customer structure based on the principle of “non-state-owned enterprises as the core, general public as the important component and state-owned enterprises as the backbone”. The Company promoted the organic growth of “light-capital” business, increased the income of intermediary business and strengthened the interbank platform. The Company focused on the development of business in key industries and areas as well as strategic customers. Positive results were achieved in the adjustments to the structures of customer, business and income.
6. The ability of fundamental management was enhanced. According to the strategic targets of the Bank, three plans regarding talent training, talent pooling, and talent incentives were implemented, and a performance- and responsibility-oriented appraisal system was set up. Audit management was strengthened, focusing on asset quality, systematic risk and compliance risk management. Financial and accounting systems were further standardized, and the transparency of cost was enhanced to effectively prevent and control financial and taxation risks. The constructions of technology team and information system were strengthened to facilitate the development of a digitalized bank. Operation management of bank outlets was further enhanced to improve customer services and experience.
7. The comprehensive risk management was enhanced. Control of credit risk was strengthened and liquidity risk management was improved. Cross-financial business, wealth management and agency businesses, and sales behaviours were further regulated. The risk management and control of Internet finance and information technology were enhanced to better prevent and manage external challenges and risks. The Bank strictly complied with the latest requirements of the CBRC and conducted a comprehensive investigation on the “three types of violations”, “three types of arbitrages”, “four types of improper behaviours” and “market disorders in the banking industry”. The risk control and compliance management were effectively strengthened.
8. The ability of research and development was upgraded. A research system of the Bank was constructed to study the overall progress, strategic direction and sustainability of the reform and development of the Bank. The research teams of each department and branch also conducted studies on the short-term and specific issues in respect of each business line. Regular meetings were convened for the intelligent financing business of the Bank in order to improve its service quality.

Discussion and Analysis on Business Operation

II. Overview of Operations

During the Reporting Period, the Company took proactive measures in coping with the adjustments and changes in the operating environment and regulatory policies. According to the major objectives of “strengthening corporate banking, expanding retail banking, optimizing financial markets business, highlighting Internet finance business, promoting integrated operation, and emphasizing risk management” as determined at the beginning of the year, and adhering to the major operating strategies of “increasing income, reducing cost, controlling risks, replenishing capital, adjusting structure and expanding customer base”, the Company continued to push forward the implementation of the Phoenix Project and operational system reform, and strengthened the comprehensive risk management system, which further optimized the business structure with stable asset quality. Results of operation grew steadily.

(I) Steady growth in profits and stable return for the shareholders

The profits maintained steady growth. During the Reporting Period, the Group recorded net profit attributable to equity shareholders of the Company of RMB28,088 million, representing an increase of RMB865 million, or 3.18%, as compared with the corresponding period of the previous year. Annualized return on weighted average equity and annualized return on average assets were 16.23% and 0.98%, respectively, representing a decrease of 1.26 percentage points and 0.15 percentage points as compared with the corresponding period of the previous year, respectively. Basic earnings per share was RMB0.77, increased by RMB0.02 as compared with the corresponding period of the previous year. Net assets per share attributable to ordinary shareholders of the Company was RMB9.71, increased by RMB0.59 as compared with the end of the previous year.

Income structure was further improved. During the Reporting Period, operating income of the Group amounted to RMB69,904 million. Of which, net non-interest income amounted to RMB28,789 million, and accounted for 41.18% of the total operating income, representing an increase of 2.48 percentage points as compared with the corresponding period of the previous year.

Cost reduction and operation efficiency enhancement were under solid progress. During the Reporting Period, cost-to-income ratio of the Group recorded at 25.12%. Operating expenses were RMB18,314 million, representing a decrease of 2.18% as compared with the corresponding period of the previous year, excluding impact of tax and surcharges.

Discussion and Analysis on Business Operation

(II) Proactive adjustment in business size and continuous optimization of business structure

During the Reporting Period, to cope with the challenges from the slowdown of M2 growth and more complicated market environments, the Company fully supported the supply-side structural reform of the central government, particularly in cutting overcapacity, reducing excess inventory, deleveraging, lowering costs and strengthening areas of weakness, by reducing its business size and carrying out business operations based on the market trend. Business structure of the Company was continuously optimized.

Asset structure was adjusted proactively. As at the end of the Reporting Period, the total assets of the Group amounted to RMB5,767,209 million, representing a decrease of RMB128,668 million, or 2.18%, as compared with the end of the previous year. Total loans and advances to customers amounted to RMB2,706,294 million, representing an increase of RMB244,708 million, or 9.94%, as compared with the end of the previous year, and accounted for 46.93% of the total assets, representing an increase of 5.17 percentage points as compared with the end of the previous year. Net investment balance of trading and banking books amounted to RMB2,061,332 million, representing a decrease of RMB145,577 million, or 6.60%, as compared with the end of the previous year. Interbank assets amounted to RMB307,419 million, representing a decrease of RMB154,418 million, or 33.44%, as compared with the end of the previous year.

Deposit structure was further optimized. As at the end of the Reporting Period, total deposits of the Group amounted to RMB3,023,127 million, representing a decrease of RMB59,115 million, or 1.92%, as compared with the end of the previous year. Of which, the balance of savings deposits accounted for 18.10% of the total deposits, representing an increase of 0.56 percentage points as compared with the end of the previous year.

Customer base continued to expand. As at the end of the Report Period, the number of domestic corporate customers with deposits was 914.4 thousand, representing an increase of 75.2 thousand, or 8.96%, as compared with the end of the previous year. Number of retail customers with deposits was 32,597.5 thousand, representing an increase of 2,259.9 thousand as compared with the end of the previous year. The number of direct banking customers was 7,098.3 thousand, representing an increase of 1,813.5 thousand as compared with the end of the previous year. Total number of mobile banking customers was 27,984.0 thousand, representing an increase of 3,232.6 thousand as compared with the end of the previous year. The number of personal online banking customers was 17,445.7 thousand, representing an increase of 1,200.5 thousand as compared with the end of the previous year.

Discussion and Analysis on Business Operation

(III) Proactive implementation of transformation and reforms and continuous breakthroughs in business innovation

The implementation of the Phoenix Project was accelerated, and the first and second phases were put to full operation. The Company continued to explore and optimize its business models in the course of reforms of digital marketing, consumer finance, small business finance, transaction banking, investment banking and financial markets business. The management efficiency in respect of costs, operation, pricing, assets and liabilities and channels was significantly improved. The third phase of projects has been launched on schedule with smooth progress. The operational systems for investment banking, asset management, interbank finance and direct banking businesses were constantly optimized through various reforms to nurture new growth points of profits. Risk management in major aspects has been enhanced by refining the risk management system. The implementation of the Basel III was in full swing, and a comprehensive risk management system has been developed, facilitating the improvement of risk management ability.

Significant achievements were made in transforming traditional growth model, refining performance incentive mechanism, improving fundamental capabilities and accelerating business innovations.

1. Strengthened corporate banking business. The Company has been striving to become “a professional commercial bank”, “a scenarized transaction bank” and “a customized investment bank”. Pursuant to the new changes and trends brought by the industrial and consumption restructurings and upgrades, the Company further refined the corporate customer base, industrial structure and regional layout to support the development of real economy effectively. In respect of transaction banking, the Company rolled out various innovations in the supply-chain financial service models, settlement and cash management products, value-added deposit products, international settlement and trade finance. The operational systems for investment banking business was reformed with the set-up of a more streamlined organization and management system fulfilling the requirements of investment banking business. Focusing on the four major segments, namely medical and healthcare industry, cultural and entertainment consumption industry, high-end manufacturing and information technology industry, and governments and investment institutions industry, the Company further expanded to sub-markets to explore customers’ demands. As at the end of the Reporting Period, the outstanding balance of corporate loans (including discounted bills) of the Company amounted to RMB1,683,092 million, and the balance of corporate deposits was RMB2,438,437 million.

Discussion and Analysis on Business Operation

2. Expanded retail banking business. The Company has actively adjusted its retail business strategies and measures under the core principle of increasing income. The Company actively pressed ahead with improving the operation system of customer base and wealth management system, promoting innovations in credit card products and services and deepening strategic transformation of small business finance and private banking business, so as to realize a sustainable growth in retail banking. As at the end of the Reporting Period, the financial assets of individual customers managed by the Company increased by RMB106,560 million to RMB1,368,573 million as compared with the end of the previous year. In particular, savings deposits and retail loans amounted to RMB537,991 million and RMB1,007,119 million, representing an increase of RMB9,794 million and RMB117,950 million as compared with the end of the previous year, respectively. Net operating income from the retail banking business was RMB24,285 million.
3. Optimized financial markets business. Grasping the development opportunity in the financial market, the Company optimized the marketing strategies and management of interbank customers, expanded the interbank strategic cooperation platform, enriched the product offerings of asset management business, refined the integrated financial services for custody business and enhanced the market competitiveness in foreign exchange and precious metal transactions. As at the end of the Reporting Period, the interbank liabilities of the Company amounted to RMB1,267,356 million. The existing scale of wealth management products and assets under custody of the Company were RMB1,210,208 million and RMB7,322,309 million, respectively.
4. Highlighted Internet finance business. Great efforts were made in expanding the online payment business. The Company collaborated with Internet platforms to establish “technology + finance” ecosystem with focus on the two major systems of online payment and mobile payment. Positioning itself as a distinctive channel of complicated transactions, the Company further upgraded the functions of WeChat banking. Various innovative mobile banking products were introduced to consolidate the leading position among peers in direct banking market. During the Reporting Period, there were 229 million transactions completed through mobile banking, representing an increase of 13.93% as compared with the corresponding period of the previous year. The transaction amount was RMB4.68 trillion, representing an increase of 20.62% as compared with the corresponding period of the previous year. The total subscription volume of Ru Yi Bao (如意寶) via the direct banking amounted to RMB1,717,433 million. There were 971 million transactions completed through personal online banking, and the transaction amount was RMB5.29 trillion.

Discussion and Analysis on Business Operation

5. Comprehensively intensified international development strategy. The Company steadily expanded its overseas business network. With the Hong Kong Branch and CMBC International as overseas platforms, the Company successfully realized domestic and overseas business synergies, and offered one-stop integrated domestic and overseas financial services for customers. The asset scale and operational efficiency of the Hong Kong Branch continued to improve. As at the end of the Reporting Period, total assets of the Hong Kong Branch amounted to HKD183,764 million, and net profit was HKD751 million, representing an increase of 35.32% as compared with the corresponding period of the previous year. Upon the successful acquisition of Skyway Securities Group Limited, a listed company, CMBC International has officially become a full-license player as an investment bank. As at the end of the Reporting Period, CMBC International had total assets of RMB10,731 million, and net profit amounted to RMB77 million, representing an increase of RMB158 million as compared with the corresponding period of the previous year.

(IV) Enhanced awareness of risk control and stable asset quality

During the Reporting Period, the Company further optimized its risk management system through strengthening the risk management by digitalized means. Disposals of non-performing and impaired assets were reinforced, and the overall asset quality was relatively stable. As at the end of the Reporting Period, the impaired loans balance of the Group was RMB45,610 million, representing an increase of RMB4,175 million, or 10.08%, as compared with the end of the previous year. The impaired loans ratio was 1.69%, representing an increase of 0.01 percentage points as compared with the end of the previous year. Provision coverage ratio and provision for total loans ratio were 153.33% and 2.58%, respectively, representing a decrease of 2.08 percentage points and 0.04 percentage points as compared with the end of the previous year, respectively.

Discussion and Analysis on Business Operation

III. Analysis of Major Items of Statement of Profit or Loss

During the Reporting Period, the Group realized net profit attributable to equity shareholders of the Company of RMB28,088 million, representing an increase of RMB865 million, or 3.18%, as compared with the corresponding period of the previous year. The slower growth rate is caused by various factors, including narrowed net interest margin and the segregation of price and tax due to the replacement of business tax by value-added tax.

The major profit and loss items of the Group and their changes are listed below:

(Unit: RMB million)

Item	January to June 2017	January to June 2016	Increase (%)
Operating income	69,904	77,389	-9.67
Of which: Net interest income	41,115	47,438	-13.33
Net non-interest income	28,789	29,951	-3.88
Operating expenses	18,314	21,446	-14.60
Impairment losses on assets	17,139	20,762	-17.45
Profit before income tax	34,451	35,181	-2.07
Less: Income tax expense	5,837	7,479	-21.95
Net profit	28,614	27,702	3.29
Of which: Net profit attributable to equity shareholders of the Company	28,088	27,223	3.18
Profit or loss attributable to non-controlling interests	526	479	9.81

Discussion and Analysis on Business Operation

The major items, percentages and changes of operating income are as follows:

(Unit: RMB million)

Item	January to June 2017		January to June 2016		Increase (%)
	Amount	% of total	Amount	% of total	
Net interest income	41,115	58.82	47,438	61.30	-13.33
Of which:					
Interest income from loans and advances to customers	60,619	86.71	57,115	73.79	6.13
Interest income from investment balances of trading and banking books	39,234	56.13	21,437	27.70	83.02
Interest income from balances with the central bank	3,515	5.03	3,381	4.37	3.96
Interest income from placements with banks and other financial institutions	3,273	4.68	3,889	5.03	-15.84
Interest income from long-term receivables	2,984	4.27	2,946	3.81	1.29
Interest income from balances with banks and other financial institutions	2,062	2.95	2,056	2.66	0.29
Interest income from financial assets held under resale agreements	1,446	2.07	7,226	9.34	-79.99
Interest expenses	-72,018	-103.02	-50,612	-65.40	42.29
Net non-interest income	28,789	41.18	29,951	38.70	-3.88
Net fee and commission income	24,477	35.02	28,059	36.26	-12.77
Other net non-interest income	4,312	6.16	1,892	2.44	127.91
Total	69,904	100.00	77,389	100.00	-9.67

(I) Net interest income and net interest margin

During the Reporting Period, net interest income of the Group was RMB41,115 million, representing a decrease of RMB6,323 million, or 13.33%, as compared with the corresponding period of the previous year. Among which, the business expansion contributed to an increase of RMB9,515 million in net interest income, and the changes in interest rate led to a decrease of RMB15,838 million in net interest income.

During the Reporting Period, net interest margin of the Group was 1.40%, representing a decrease of 0.61 percentage points as compared with the corresponding period of the previous year.

Discussion and Analysis on Business Operation

The analysis of net interest income of the Group is listed below:

(Unit: RMB million)

Item	January to June 2017			January to June 2016		
	Average balance	Interest income	Average return (%)	Average balance	Interest income	Average return (%)
Interest-earning assets						
Total balance of loans and advances to customers	2,614,751	60,619	4.64	2,213,333	57,115	5.16
Of which: Corporate loans and advances	1,661,261	36,421	4.38	1,466,559	35,344	4.82
Personal loans and advances	953,490	24,198	5.08	746,774	21,771	5.83
Investment balance of trading and banking books	2,228,855	39,234	3.52	1,107,157	21,437	3.87
Balances with the central bank	453,987	3,515	1.55	447,091	3,381	1.51
Placements with banks and other financial institutions	185,821	3,273	3.52	239,936	3,889	3.24
Long-term receivables	102,474	2,984	5.82	104,028	2,946	5.66
Balances with banks and other financial institutions	212,673	2,062	1.94	163,421	2,056	2.52
Financial assets held under resale agreements	78,669	1,446	3.68	446,057	7,226	3.24
Total	5,877,230	113,133	3.85	4,721,023	98,050	4.15
Item	January to June 2017			January to June 2016		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Interest-bearing liabilities						
Deposits from customers	3,037,630	26,206	1.73	2,802,225	25,500	1.82
Of which: Corporate deposits	2,492,229	21,772	1.75	2,256,015	20,812	1.85
Demand	1,122,078	5,054	0.90	831,094	2,719	0.65
Time	1,370,151	16,718	2.44	1,424,921	18,093	2.54
Personal deposits	545,401	4,434	1.63	546,210	4,688	1.72
Demand	171,995	403	0.47	151,357	299	0.40
Time	373,406	4,031	2.16	394,853	4,389	2.22
Deposits from banks and other financial institutions	1,291,538	25,013	3.87	1,071,191	15,249	2.85
Debt securities issued	448,542	8,575	3.82	184,478	3,974	4.31
Borrowings from central bank and other financial institutions and others	438,377	7,339	3.35	258,995	4,187	3.23
Financial assets sold under repurchase agreements	149,411	2,702	3.62	55,855	758	2.71
Placements from banks and other financial institutions	209,894	2,183	2.08	91,332	944	2.07
Total	5,575,392	72,018	2.58	4,464,076	50,612	2.27
Net interest income		41,115			47,438	
Net interest spread			1.27			1.88
Net interest margin			1.40			2.01

Note: In this table, outward remittance and remittance payables are included in corporate demand deposits; issuance of certificates of deposit is included in corporate time deposits.

Discussion and Analysis on Business Operation

The table below illustrates the breakdown of the impact on the changes in interest income and interest expenses of the Group due to changes in scale and changes in interest rate:

(Unit: RMB million)

Item	Changes in scale from January to June 2016 to January to June 2017	Changes in interest rate from January to June 2016 to January to June 2017	Net increase/ decrease
Changes in interest income:			
Total balance of loans and advances			
to customers	10,359	-6,855	3,504
Investment balance of trading and banking books	21,719	-3,922	17,797
Balances with the central bank	52	82	134
Placements with banks and other financial institutions	-877	261	-616
Long-term receivables	-44	82	38
Balances with banks and other financial institutions	620	-614	6
Financial assets held under resale agreements	-5,952	172	-5,780
Subtotal	25,877	-10,794	15,083
Changes in interest expenses:			
Deposits from customers	2,142	-1,436	706
Deposits from banks and other financial institutions	3,137	6,627	9,764
Debt securities issued	5,688	-1,087	4,601
Borrowings from the central bank and other financial institutions and others	2,900	252	3,152
Financial assets sold under repurchase agreements	1,270	674	1,944
Placements from banks and other financial institutions	1,225	14	1,239
Subtotal	16,362	5,044	21,406
Changes in net interest income	9,515	-15,838	-6,323

Note: Change in scale is measured by the change of average balance; change in interest rate is measured by the change of average interest rate.

Discussion and Analysis on Business Operation

1. Interest income

During the Reporting Period, interest income of the Group was RMB113,133 million, representing an increase of RMB15,083 million, or 15.38%, as compared with the corresponding period of the previous year. The increase in interest income was mainly due to the growth in the scale of interest-earning assets of the Group. In respect of interest income structure, interest income from loans and advances to customers accounted for 53.58% of the total interest income. Interest income from investment balance of trading and banking books accounted for 34.68% of the total interest income.

(1) Interest income from loans and advances to customers

During the Reporting Period, interest income from loans and advances to customers of the Group recorded RMB60,619 million, representing an increase of RMB3,504 million, or 6.13%, as compared with the corresponding period of the previous year. In particular, interest income from corporate loans and advances amounted to RMB36,421 million, representing an increase of RMB1,077 million, or 3.05%, as compared with the corresponding period of the previous year. Interest income from personal loans and advances amounted to RMB24,198 million, representing an increase of RMB2,427 million, or 11.15%, as compared with the corresponding period of the previous year.

(2) Interest income from investment balance of trading and banking books

During the Reporting Period, interest income from investment balance of trading and banking books of the Group was RMB39,234 million, representing an increase of RMB17,797 million, or 83.02%, as compared with the corresponding period of the previous year. The increase was mainly due to the expansion of investment scales of the Group.

(3) Interest income from balances and placements with banks and other financial institutions and financial assets held under resale agreements

During the Reporting Period, interest income from balances and placements with banks and other financial institutions and financial assets held under resale agreements of the Group was RMB6,781 million, representing a decrease of RMB6,390 million, or 48.52%, as compared with the corresponding period of the previous year. The decrease was mainly due to the reduction in the business scale of financial assets held under resale agreements.

(4) Interest income from balances with the central bank

During the Reporting Period, interest income from balances with the central bank of the Group was RMB3,515 million, representing an increase of RMB134 million, or 3.96%, as compared with the corresponding period of the previous year.

Discussion and Analysis on Business Operation

(5) Interest income from long-term receivables

During the Reporting Period, interest income of the Group from long-term receivables amounted to RMB2,984 million, representing an increase of RMB38 million, or 1.29%, as compared with the corresponding period of the previous year.

2. Interest expenses

During the Reporting Period, interest expenses of the Group was RMB72,018 million, representing an increase of RMB21,406 million, or 42.29%, as compared with the corresponding period of the previous year. The increase was mainly due to the increase in interest-bearing liabilities and the higher interest rate of interbank liabilities.

(1) Interest expenses on deposits from customers

During the Reporting Period, interest expenses of the Group on deposits from customers amounted to RMB26,206 million, representing an increase of RMB706 million, or 2.77%, as compared with the corresponding period of the previous year.

(2) Interest expenses on deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements

During the Reporting Period, interest expenses of the Group on deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements amounted to RMB29,898 million, representing an increase of RMB12,947 million, or 76.38%, as compared with the corresponding period of the previous year. The increase was mainly due to the increased daily average interbank liabilities and higher cost ratio.

(3) Interest expenses on debt securities issued

During the Reporting Period, interest expenses of the Group on debt securities issued amounted to RMB8,575 million, representing an increase of RMB4,601 million, or 115.78%, as compared with the corresponding period of the previous year. The increase was mainly due to the growth in the issuance scale of interbank negotiable certificates of deposit.

Discussion and Analysis on Business Operation

(4) Interest expenses on borrowings from the central bank and other financial institutions and other interest expenses

During the Reporting Period, interest expenses of the Group on borrowings from the central bank and other financial institutions and other interest expenses amounted to RMB7,339 million, representing an increase of RMB3,152 million, or 75.28%, as compared with the corresponding period of the previous year. The increase was mainly due to the growth in the borrowings from the central bank and other financial institutions.

(II) Net non-interest income

During the Reporting Period, net non-interest income of the Group amounted to RMB28,789 million, representing a decrease of RMB1,162 million, or 3.88%, as compared with the corresponding period of the previous year, which was mainly due to the decrease in net fee and commission income.

(Unit: RMB million)

Item	January to June 2017	January to June 2016	Increase (%)
Net fee and commission income	24,477	28,059	-12.77
Other net non-interest income	4,312	1,892	127.91
Total	28,789	29,951	-3.88

Discussion and Analysis on Business Operation

1. Net fee and commission income

During the Reporting Period, net fee and commission income of the Group amounted to RMB24,477 million, representing a decrease of RMB3,582 million, or 12.77%, as compared with the corresponding period of the previous year, which was mainly due to the decrease in fee income of agency services and fee and commission income of credit commitments as well as the increase in fee and commission expenses.

(Unit: RMB million)

Item	January to June 2017	January to June 2016	Increase (%)
Bank card services	10,121	7,945	27.39
Trust and other fiduciary services	7,097	7,411	-4.24
Agency services	6,330	9,293	-31.88
Credit commitments	1,607	2,929	-45.13
Settlement services	1,603	1,333	20.26
Financial advisory services	196	392	-50.00
Others	421	484	-13.02
Fee and commission income	27,375	29,787	-8.10
Less: Fee and commission expenses	2,898	1,728	67.71
Net fee and commission income	24,477	28,059	-12.77

2. Other net non-interest income

During the Reporting Period, other net non-interest income of the Group was RMB4,312 million, representing an increase of RMB2,420 million, or 127.91%, as compared with the corresponding period of the previous year, which was mainly due to the change in fair value of precious metal and derivatives caused by the fluctuation of exchange rate in the market.

(Unit: RMB million)

Item	January to June 2017	January to June 2016	Increase (%)
Net gain arising from disposals of securities and discounted bills	1,685	978	72.29
Net trading gain	1,426	59	2,316.95
Other operating income	1,201	855	40.47
Total	4,312	1,892	127.91

Discussion and Analysis on Business Operation

(III) Operating expenses

During the Reporting Period, operating expenses of the Group amounted to RMB18,314 million, representing a decrease of RMB3,132 million, or 14.60%, as compared with the corresponding period of the previous year, which was mainly due to the segregation of price and tax upon the replacement of business tax by value-added tax and the significant progress in the Group's cost reduction and efficiency enhancement with improved cost structure. The cost-to-income ratio of the Group was 25.12%, representing an increase of 1.92 percentage points as compared with the corresponding period of the previous year.

(Unit: RMB million)

Item	January to June 2017	January to June 2016	Increase (%)
Staff cost (including Directors' emoluments)	8,779	8,740	0.45
Rental and property management expenses	2,122	2,301	-7.78
Depreciation and amortisation	1,652	1,719	-3.90
Tax and surcharges	753	3,494	-78.45
Office expenses	689	780	-11.67
Business expenses and others	4,319	4,412	-2.11
Total	18,314	21,446	-14.60

(IV) Impairment losses on assets

During the Reporting Period, the Group recorded impairment losses on assets of RMB17,139 million, representing a decrease of RMB3,623 million, or 17.45%, as compared with the corresponding period of the previous year.

(Unit: RMB million)

Item	January to June 2017	January to June 2016	Increase (%)
Loans and advances to customers	16,330	20,816	-21.55
Loans and receivables	345	326	5.83
Long-term receivables	242	280	-13.57
Others	222	-660	Negative for the corresponding period of the previous year
Total	17,139	20,762	-17.45

Discussion and Analysis on Business Operation

(V) Income tax expenses

During the Reporting Period, income tax expenses of the Group amounted to RMB5,837 million, representing a decrease of RMB1,642 million as compared with the corresponding period of the previous year, and accounted for 16.94% of the total profit before income tax.

IV. Analysis of Major Items of Statement of Financial Position

(I) Assets

During the Reporting Period, the Group actively adjusted its assets business structure. As at the end of the Reporting Period, total assets of the Group amounted to RMB5,767,209 million, representing a decrease of RMB128,668 million, or 2.18%, as compared with the end of the previous year.

The components of the Group's total assets are listed below:

(Unit: RMB million)

Item	30 June 2017		31 December 2016		31 December 2015	
	Amount	% of total	Amount	% of total	Amount	% of total
Gross balance of loans and advances to customers	2,706,294	46.93	2,461,586	41.76	2,048,048	45.30
Less: Allowance for impairment losses on loans	69,933	1.21	64,394	1.09	50,423	1.11
Net balance of loans and advances to customers	2,636,361	45.72	2,397,192	40.67	1,997,625	44.19
Net investment balance of trading and banking books	2,061,332	35.74	2,206,909	37.43	913,562	20.21
Cash and balances with the central bank	424,669	7.36	524,239	8.89	432,831	9.57
Balances and placements with banks and other financial institutions and financial assets held under resale agreements	307,419	5.33	461,837	7.83	901,302	19.94
Long-term receivables	109,103	1.89	94,791	1.61	92,579	2.05
Property and equipment	45,811	0.79	46,190	0.78	41,151	0.91
Others	182,514	3.17	164,719	2.79	141,638	3.13
Total	5,767,209	100.00	5,895,877	100.00	4,520,688	100.00

Note: Net investment balance of trading and banking books includes financial assets at fair value through profit or loss, available-for-sale securities, held-to-maturity securities as well as loans and receivables.

Discussion and Analysis on Business Operation

1. Loans and advances to customers

As at the end of the Reporting Period, total balance of loans and advances to customers of the Group amounted to RMB2,706,294 million, representing an increase of RMB244,708 million, or 9.94%, as compared with the end of the previous year. The gross balance of loans and advances to customers accounted for 46.93% of total assets, representing an increase of 5.17 percentage points as compared with the end of the previous year.

The breakdown of loans and advances to customers by product type is as follows:

(Unit: RMB million)

Item	30 June 2017		31 December 2016		31 December 2015	
	Amount	% of total	Amount	% of total	Amount	% of total
Corporate loans and advances	1,686,544	62.32	1,560,664	63.40	1,320,020	64.45
Of which: Discounted bills	103,538	3.83	165,800	6.74	79,084	3.86
Personal loans and advances	1,019,750	37.68	900,922	36.60	728,028	35.55
Total	2,706,294	100.00	2,461,586	100.00	2,048,048	100.00

The breakdown of personal loans and advances is as follows:

(Unit: RMB million)

Item	30 June 2017		31 December 2016		31 December 2015	
	Amount	% of total	Amount	% of total	Amount	% of total
Residential mortgage	350,320	34.35	295,875	32.84	114,328	15.70
Loans to small and micro enterprises	346,348	33.96	335,074	37.19	378,177	51.95
Credit card overdrafts	246,998	24.22	207,372	23.02	170,910	23.48
Others	76,084	7.47	62,601	6.95	64,613	8.87
Total	1,019,750	100.00	900,922	100.00	728,028	100.00

2. Investment on trading and banking books

As at the end of the Reporting Period, net investment balance of trading and banking books of the Group amounted to RMB2,061,332 million, representing a decrease of RMB145,577 million, or 6.60%, as compared with the end of the previous year, and accounted for 35.74% to the total assets, representing a decrease of 1.69 percentage points as compared with the end of the previous year.

Discussion and Analysis on Business Operation

(1) The structure of investment on trading and banking books

The structure of investment on trading and banking books of the Group classified by holding purpose is as follows:

(Unit: RMB million)

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Loans and receivables	1,019,404	49.45	1,148,729	52.05
Held-to-maturity securities	663,652	32.20	661,362	29.97
Available-for-sale securities	311,700	15.12	307,078	13.91
Financial assets at fair value through profit or loss	66,576	3.23	89,740	4.07
Total	2,061,332	100.00	2,206,909	100.00

(2) Holdings of financial bonds

As at the end of the Reporting Period, financial bonds held by the Group were mainly debt securities of commercial banks, policy financial bonds, and debt securities of other financial institutions. The top ten financial bonds in terms of par value are as follows:

(Unit: RMB million)

Item	Par value	Annual interest rate (%)	Maturity date	Impairment allowances
2016 financial bonds	3,387	1.93	2019-09-29	—
2016 financial bonds	3,380	3.18	2026-04-05	—
2013 financial bonds	3,000	4.37	2018-07-29	—
2017 financial bonds	3,000	4.20	2020-04-17	—
2016 financial bonds	2,760	3.20	2019-07-18	—
2013 financial bonds	2,480	4.53	2020-04-08	—
2015 financial bonds	2,060	4.18	2018-04-03	—
2016 financial bonds	2,032	2.05	2019-09-26	—
2017 financial bonds	2,000	4.20	2020-05-24	—
2010 financial bonds	1,930	2.09	2020-02-25	—
Total	26,029			

Discussion and Analysis on Business Operation

3. Balances and placements with banks and other financial institutions and financial assets held under resale agreements

As at the end of the Reporting Period, balances and placements with banks and other financial institutions and financial assets held under resale agreements of the Group amounted to RMB307,419 million, representing a decrease of RMB154,418 million, or 33.44%, as compared with the end of the previous year, and accounted for 5.33% of the total assets, representing a decrease of 2.50 percentage points as compared with the end of the previous year.

4. Derivative financial instruments

(Unit: RMB million)

Item	Notional amount	30 June 2017	
		Assets	Liabilities
Currency swaps	1,248,298	7,016	7,873
Interest rate swaps	428,826	244	104
Precious metal derivatives	75,679	1,811	1,071
Foreign exchange forwards	45,519	426	560
Currency options	29,914	155	115
Extension options	5,000	—	—
Credit derivatives	135	4	—
Others	1,581	66	65
Total		9,722	9,788

Discussion and Analysis on Business Operation

(II) Liabilities

As at the end of the Reporting Period, the Group's total liabilities amounted to RMB5,392,687 million, representing a decrease of RMB151,163 million, or 2.73%, as compared with the end of the previous year.

The breakdown of the Group's total liabilities is listed below:

(Unit: RMB million)

Item	30 June 2017		31 December 2016		31 December 2015	
	Amount	% of total	Amount	% of total	Amount	% of total
Deposits from customers	3,023,127	56.06	3,082,242	55.60	2,732,262	64.89
Deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements	1,263,272	23.43	1,521,274	27.44	1,039,904	24.70
Debt securities issued	529,751	9.82	398,376	7.19	181,233	4.30
Borrowings from the central bank and other financial institutions	464,834	8.62	437,912	7.90	171,015	4.06
Others	111,703	2.07	104,046	1.87	86,491	2.05
Total	5,392,687	100.00	5,543,850	100.00	4,210,905	100.00

Discussion and Analysis on Business Operation

1. Deposits from customers

As at the end of the Reporting Period, total balance of deposits from customers of the Group amounted to RMB3,023,127 million, representing a decrease of RMB59,115 million, or 1.92%, as compared with the end of the previous year, and accounted for 56.06% of the total liabilities. In respect of customer structure, the proportions of corporate deposits, personal deposits and other deposits in total deposits were 81.26%, 18.10% and 0.64%, respectively. In respect of maturity structure, the proportions of demand deposits, time deposits and other deposits in total deposits were 42.89%, 56.47% and 0.64%, respectively.

(Unit: RMB million)

Item	30 June 2017		31 December 2016		31 December 2015	
	Amount	% of total	Amount	% of total	Amount	% of total
Corporate deposits	2,456,721	81.26	2,522,232	81.83	2,148,159	78.62
Demand	1,113,091	36.82	1,141,097	37.02	803,352	29.40
Time	1,343,630	44.44	1,381,135	44.81	1,344,807	49.22
Personal deposits	547,254	18.10	540,548	17.54	572,053	20.94
Demand	183,643	6.07	167,686	5.44	159,682	5.84
Time	363,611	12.03	372,862	12.10	412,371	15.10
Certificates of deposit	12,393	0.41	12,792	0.42	6,185	0.23
Outward remittance and remittance payables	6,759	0.23	6,670	0.21	5,865	0.21
Total	3,023,127	100.00	3,082,242	100.00	2,732,262	100.00

2. Deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements

As at the end of the Reporting Period, total deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements of the Group amounted to RMB1,263,272 million, representing a decrease of RMB258,002 million, or 16.96%, as compared with the end of the previous year. The decrease was mainly due to the drop in deposits from banks and other financial institutions.

3. Debt securities issued

As at the end of the Reporting Period, total debt securities issued by the Group amounted to RMB529,751 million, representing an increase of RMB131,375 million, or 32.98%, as compared with the end of the previous year. The increase was mainly due to the increase in the issuance scale of interbank negotiable certificates of deposit.

Discussion and Analysis on Business Operation

(III) Shareholders' equity

As at the end of the Reporting Period, total shareholders' equity of the Group amounted to RMB374,522 million, representing an increase of RMB22,495 million, or 6.39%, as compared with the end of the previous year. Total equity attributable to the equity shareholders of the Company amounted to RMB364,195 million, representing an increase of RMB21,605 million, or 6.31%, as compared with the end of previous year. The increase in the shareholders' equity was mainly due to the increase in net profit of the Group.

(Unit: RMB million)

Item	30 June 2017	31 December 2016	Increase (%)
Share capital	36,485	36,485	—
Other equity instruments	9,892	9,892	—
Of which: Preference shares	9,892	9,892	—
Reserves	168,015	165,583	1.47
Of which: Capital reserve	64,744	64,744	—
Surplus reserve	32,805	30,052	9.16
General reserve	73,070	72,929	0.19
Other reserves	-2,604	-2,142	Negative for two periods
Retained earnings	149,803	130,630	14.68
Total equity attributable to equity shareholders of the Company	364,195	342,590	6.31
Non-controlling interests	10,327	9,437	9.43
Total	374,522	352,027	6.39

(IV) Off-balance sheet items

Balances of major off-balance sheet items of the Group are as follows:

(Unit: RMB million)

Item	30 June 2017	31 December 2016	Increase (%)
Bank acceptances	524,803	612,583	-14.33
Guarantees	152,096	196,566	-22.62
Letters of credit	124,249	110,330	12.62
Unused credit card commitments	89,120	63,335	40.71
Capital commitments	21,987	13,791	59.43
Operating lease commitments	14,389	16,571	-13.17
Finance lease commitments	4,431	6,821	-35.04
Irrevocable loan commitments	4,110	8,635	-52.40

Discussion and Analysis on Business Operation

(V) Market share of major products and services

According to the Summary of Sources & Uses of Funds of Financial Institutions (in RMB and Foreign Currency) (《金融機構本外幣信貸收支月報表》) released by the PBOC in June 2017, among nine national joint-stock commercial banks in China, as at the end of the Reporting Period, the market share of total deposits of the Company was 12.81%, and the market share of total loans of the Company was 13.55%. (Note: Nine national joint-stock commercial banks in China refer to China Merchants Bank, CITIC Bank, Industrial Bank, China Everbright Bank, Shanghai Pudong Development Bank, Huaxia Bank, China Guangfa Bank, Ping An Bank and the Company. All data above are based on the statistics of domestic institutions of the Company. According to the Notice on Adjusting the Statistical Standards of Loans and Deposits for Financial Institutions (Yin Fa [2015] No.14) (《中國人民銀行關於調整金融機構存貸款統計口徑的通知》(銀發[2015]14號)) released by the PBOC, with effect from 2015, the deposit-taking financial institutions shall include deposits from and placements with non-deposit-taking financial institutions in “Total Deposits” and “Total Loans”, respectively, for statistical purpose.)

Discussion and Analysis on Business Operation

V. Qualitative Analysis of Loans

(I) Industry concentration of loans

(Unit: RMB million)

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	361,239	13.35	321,246	13.05
Real estate	242,651	8.97	226,944	9.22
Wholesale and retail	233,571	8.63	221,161	8.98
Leasing and commercial services	232,483	8.59	199,841	8.12
Mining	128,724	4.76	128,243	5.21
Financial services	99,147	3.66	110,836	4.50
Transportation, storage and postal service	88,782	3.28	79,753	3.24
Water, environment and public utilities management	84,653	3.13	61,187	2.49
Construction	75,248	2.78	66,678	2.71
Production and supply of electric power, heat, gas and water	50,769	1.88	46,569	1.89
Public administration, social security and social organisations	15,629	0.58	24,886	1.01
Agriculture, forestry, animal husbandry and fishery	13,308	0.49	15,905	0.65
Accommodation and catering	8,039	0.30	8,277	0.34
Others	52,301	1.92	49,138	1.99
Subtotal	1,686,544	62.32	1,560,664	63.40
Personal loans and advances	1,019,750	37.68	900,922	36.60
Total	2,706,294	100.00	2,461,586	100.00

Discussion and Analysis on Business Operation

(II) Geographical distribution of loans*(Unit: RMB million)*

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Northern China	858,870	31.74	765,655	31.10
Eastern China	795,147	29.38	738,275	29.99
Southern China	375,418	13.87	326,378	13.26
Other regions	676,859	25.01	631,278	25.65
Total	2,706,294	100.00	2,461,586	100.00

Note: Northern China includes Minsheng Financial Leasing, Ningjin Rural Bank, the Head Office and the branches in Beijing, Taiyuan, Shijiazhuang and Tianjin; Eastern China includes Cixi Rural Bank, Songjiang Rural Bank, Jiading Rural Bank, Penglai Rural Bank, Funing Rural Bank, Taicang Rural Bank, Ningguo Rural Bank, Guichi Rural Bank, Tiantai Rural Bank, Tianchang Rural Bank and the branches in Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei, Nanchang and Shanghai Free Trade Zone; Southern China includes Minsheng Royal Fund, Anxi Rural Bank, Zhangpu Rural Bank, Xiang'an Rural Bank and the branches in Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou, Xiamen, Nanning and Haikou; Other regions include CMBC International, Pengzhou Rural Bank, Qijiang Rural Bank, Tongnan Rural Bank, Meihekou Rural Bank, Ziyang Rural Bank, Jiangxia Rural Bank, Changyuan Rural Bank, Yidu Rural Bank, Zhongxiang Rural Bank, Puer Rural Bank, Jinghong Rural Bank, Zhidan Rural Bank, Yuyang Rural Bank, Tengchong Rural Bank, Linzhi Rural Bank and the branches in Xi'an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou, Changchun, Hohhot, Shenyang, Hong Kong, Guiyang, Lhasa, Harbin, Lanzhou, Urumqi, Xining and Yinchuan.

(III) Classification and percentage of loans by types of collateral*(Unit: RMB million)*

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Unsecured loans	609,828	22.53	493,658	20.05
Guaranteed loans	644,190	23.80	632,487	25.69
Loans secured by				
– Tangible assets other than monetary assets	1,077,659	39.83	972,097	39.50
– Monetary assets	374,617	13.84	363,344	14.76
Total	2,706,294	100.00	2,461,586	100.00

Discussion and Analysis on Business Operation

(IV) Top ten loan customers

As at the end of the Reporting Period, the aggregate amount of outstanding loans to the Group's top ten loan customers sorted by the loan balance was RMB69,033 million, accounting for 2.55% of total loans and advances to customers. The top ten loan customers of the Group were as follows:

(Unit: RMB million)

Top ten loan customers	Balance	% of gross loans
A	12,465	0.47
B	9,169	0.34
C	7,574	0.28
D	6,822	0.25
E	6,564	0.24
F	5,886	0.22
G	5,481	0.20
H	5,339	0.20
I	5,000	0.18
J	4,733	0.17

As at the end of the Reporting Period, the percentages of loans to the single largest loan customer and the top ten loan customers were as follows:

(Unit: %)

Major indicator	Benchmark	30 June 2017	31 December 2016	31 December 2015
Percentage of loans to the single largest loan customer	≤10	2.67	1.64	1.75
Percentage of loans to the top ten loan customers	≤50	14.78	12.21	13.11

Notes: 1. Percentage of loans to the single largest loan customer = Total loans to the single largest loan customer/net capital base.

2. Percentage of loans to the top ten loan customers = Total loans to the top ten loan customers/net capital base.

Discussion and Analysis on Business Operation

(V) Five-category classification of credit assets

As at the end of the Reporting Period, the impaired loans ratio of the Group was 1.69%, representing an increase of 0.01 percentage points as compared with the end of the previous year.

(Unit: RMB million)

Item	30 June 2017		31 December 2016		
	Amount	% of total	Amount	% of total	Increase (%)
Performing loans	2,660,684	98.31	2,420,151	98.32	9.94
Of which: Pass	2,561,110	94.64	2,327,870	94.57	10.02
Special-mention	99,574	3.67	92,281	3.75	7.90
Impaired loans	45,610	1.69	41,435	1.68	10.08
Of which: Substandard	16,773	0.63	13,593	0.55	23.39
Doubtful	20,331	0.75	19,200	0.78	5.89
Loss	8,506	0.31	8,642	0.35	-1.57
Total	2,706,294	100.00	2,461,586	100.00	9.94

(VI) Migration ratio of loans

The table below sets forth the migration ratio of loans of the Company:

(Unit: %)

Item	30 June	31 December	31 December
	2017	2016	2015
Pass	1.60	5.23	4.59
Special-mention	11.37	22.48	27.19
Substandard	35.28	60.97	23.69
Doubtful	20.17	38.81	52.01

Discussion and Analysis on Business Operation

(VII) Restructured loans and overdue loans

As at the end of the Reporting Period, the balance of restructured loans of the Group was RMB12,006 million, representing an increase of RMB3,545 million as compared with the end of the previous year. The percentage of restructured loans to total loans and advances to customers was 0.44%, representing an increase of 0.10 percentage points as compared with the end of the previous year. The balance of overdue loans was RMB93,076 million, representing an increase of RMB6,922 million as compared with the end of the previous year. The percentage of overdue loans to total loans and advances to customers was 3.44%, representing a decrease of 0.06 percentage points as compared with the end of the previous year.

(Unit: RMB million)

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Restructured loans	12,006	0.44	8,461	0.34
Overdue loans	93,076	3.44	86,154	3.50

Notes: 1. Restructured loans (full name: loans after restructuring) are loans of which the terms of repayment under the loan agreement have been amended by the Bank as a result of deteriorated financial status of the borrower or inability of the borrower to repay the debt due.

2. Overdue loans are loans of which the repayment of principal or interest is overdue for one or more days.

(VIII) Repossessed assets

(Unit: RMB million)

Item	30 June 2017		31 December 2016	
	Balance	Allowance for impairment losses	Balance	Allowance for impairment losses
Repossessed assets	11,444	81	12,114	81
Of which: Real estate and land use right	10,545	78	11,215	78
Motor vehicles	186	—	186	—
Others	713	3	713	3

Discussion and Analysis on Business Operation

(IX) Changes in allowance for impairment losses on loans*(Unit: RMB million)*

Item	30 June 2017	31 December 2016
Opening balance	64,394	50,423
Charge for the period	17,735	43,162
Release during the period	-1,405	-1,948
Transfer out	-2,461	-10,710
Write-offs	-8,700	-17,500
Recoveries	891	1,849
Unwinding of discount	-446	-970
Exchange gain or loss	-75	88
Ending balance	69,933	64,394

Method for assessing allowances for impairment losses on loans:

Under the existing accounting standards, the Company makes impairment allowances for loans upon evaluation on an individual basis or on an aggregate basis. As for corporate loans, if there is objective evidence that an impairment loss on a loan has been incurred, impairment loss shall be recognized and the carrying amount of the financial assets shall be reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated future cash flows shall be discounted at the original effective interest rate of the loan. As for retail loans or corporate loans without impairment loss, the Company formulates different allowance standards and makes provisions on an aggregate basis according to the loss record of different types of loans.

The Company currently proceeds with the implementation of the revised accounting standards, including IFRS 9: Financial Instruments. Upon the implementation of the new standards, the impairment provision for financial assets will primarily be made on the basis of expected loss with reference to the historical and present information as well as future forecast. The disclosure and prevention and control of the credit risk for financial assets will be further enhanced.

(X) Impaired loans and related measures

As at the end of the Reporting Period, the Group had impaired loan balance of RMB45,610 million, representing an increase of RMB4,175 million, or 10.08%, as compared with the end of the previous year.

Discussion and Analysis on Business Operation

1. Industry concentration of impaired loans

(Unit: RMB million)

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	12,413	27.22	10,200	24.63
Wholesale and retail	6,298	13.81	5,889	14.21
Mining	2,066	4.53	1,874	4.52
Transportation, storage and postal service	1,290	2.83	1,263	3.05
Leasing and commercial services	856	1.88	812	1.96
Construction	731	1.60	793	1.91
Real estate	560	1.23	586	1.41
Production and supply of electric power, heat, gas and water	399	0.87	155	0.37
Agriculture, forestry, animal husbandry and fishery	338	0.74	293	0.71
Accommodation and catering	72	0.16	72	0.17
Financial services	15	0.03	45	0.11
Others	129	0.28	216	0.52
Subtotal	25,167	55.18	22,198	53.57
Personal loans and advances	20,443	44.82	19,237	46.43
Total	45,610	100.00	41,435	100.00

2. Geographical distribution of impaired loans

(Unit: RMB million)

Item	30 June 2017		31 December 2016	
	Amount	% of total	Amount	% of total
Northern China	20,577	45.11	19,448	46.93
Eastern China	11,051	24.23	9,396	22.68
Southern China	3,758	8.24	3,736	9.02
Other regions	10,224	22.42	8,855	21.37
Total	45,610	100.00	41,435	100.00

Note: The geographical distribution is in line with the distribution shown in "V. Qualitative Analysis of Loans — (II) Geographical distribution of loans" in this report.

Discussion and Analysis on Business Operation

In order to effectively control and ensure stable asset quality in general, the Group mainly adopted the following measures during the Reporting Period:

- (1) Proactively adjusting loan distribution and continuously optimizing asset structure in line with the national macro-economic policies and industrial policies, latest regulatory requirements, and risk preferences and development plans determined by the Board.
- (2) Adjusting and improving management policies on asset portfolios by imposing multidimensional risk limit management for different industries, customers and products.
- (3) Strictly controlling risk of new credit facilities. Greater efforts were exerted to direct the distribution of loans, enhance screening of customers admittances, and set up stricter credit approval criteria in order to mitigate credit risks from the origins.
- (4) Enhancing risk early-warning and post-loan risk supervision. On the one hand, with the support of big data technology, the Company promoted the construction of a risk early-warning system equipped with a new top-down alert management model, which fully supports its business development from idea, system, organization and procedure. On the other hand, post-loan management was enhanced for existing loans. A regular monitoring and inspection system was put in place to enhance supervision over major industries, regions, products and identified signs of risks in order to adopt responsive measures in a timely manner and duly carry out proper risk prevention.
- (5) Further enhancing collection and disposal of impaired loans by concurrently implementing various measures, including recovery and disposal measures such as repayment collection, restructuring, assignment, foreclosing, legal action and writing-off, and actively exploring and implementing new recovery methods, in order to improve the efficiency of collection and disposal.
- (6) Strengthening training programs to improve the professional skills and comprehensive qualities of the risk management team and foster the philosophy of compliant operation.

Discussion and Analysis on Business Operation

VI. Analysis of Capital Adequacy Ratio

The Group calculated its capital adequacy ratio in accordance with the Administrative Measures for the Capital of Commercial Banks (Provisional)(《商業銀行資本管理辦法(試行)》) (the “New Measures”) promulgated by the CBRC and other relevant regulatory provisions. The calculation of capital adequacy ratio covers the Company and the financial institutions directly or indirectly invested by the Company in accordance with the requirements of the New Measures. As at the end of the Reporting Period, the capital adequacy ratio, core tier-one capital adequacy ratio and tier-one capital adequacy ratio of the Group satisfied the requirements of the New Measures of the CBRC.

The table below sets out the capital adequacy ratio of the Group:

(Unit: RMB million)

Item	30 June 2017	
	The Group	The Company
Net core tier-one capital	360,287	341,751
Net tier-one capital	371,134	351,634
Total net capital base	467,183	444,543
Core tier-one capital	361,453	348,064
Core tier-one capital deductions	-1,166	-6,313
Other tier-one capital	10,847	9,892
Other tier-one capital deductions	—	-9
Tier-two capital	96,049	92,927
Tier-two capital deductions	—	-18
Total risk-weighted assets	3,923,383	3,723,093
Of which: Credit risk-weighted assets	3,603,871	3,414,435
Market risk-weighted assets	44,826	43,787
Operational risk-weighted assets	274,686	264,871
Core tier-one capital adequacy ratio (%)	9.18	9.18
Tier-one capital adequacy ratio (%)	9.46	9.44
Capital adequacy ratio (%)	11.91	11.94

Capital instruments entitled for the preferential policy during the transitional period: According to the applicable requirements under the New Measures, non-qualified tier-two capital instruments issued by commercial banks before 12 September 2010 may be entitled to preferential policy of a progressive deduction of book value by 10% per annum starting from 1 January 2013. As at the end of the Reporting Period, the balance of non-qualified tier-two capital instruments of the Company was RMB9 billion, which can be put into the calculation.

Discussion and Analysis on Business Operation

As at the end of the Reporting Period, net tier-one capital increased by RMB7,737 million while on- and off-balance sheet assets after adjustment decreased by RMB208,310 million, and the leverage ratio increased by 0.29 percentage points, as compared with the end of March 2017. The leverage ratio of the Group is as follows:

(Unit: RMB million)

Item	30 June 2017	31 March 2017	31 December 2016	30 September 2016
Leverage ratio (%)	5.69	5.40	5.19	5.14
Net tier-one capital	371,134	363,397	349,263	332,981
On- and off-balance sheet assets after adjustment	6,520,480	6,728,790	6,735,442	6,472,196

For details of the regulatory capital, please refer to the section headed “Investor Relations — Announcements and Disclosures — Regulatory Capital” on the Company’s website (www.cmbc.com.cn).

VII. Segment Report

In respect of geographical regions, the Group mainly operates its business in four main regions, namely, Northern China, Eastern China, Southern China and others. In respect of business lines, the Group provides different types of financial services in four major business segments, namely corporate banking, personal banking, treasury and others.

Discussion and Analysis on Business Operation

(I) Segment operating results by geographical region*(Unit: RMB million)*

Item	Total assets (excluding deferred income tax assets)	Operating income	Profit before income tax
Northern China	4,336,081	36,265	20,598
Eastern China	1,469,884	12,789	4,767
Southern China	791,539	9,100	4,893
Other regions	1,006,175	11,750	4,193
Inter-segment elimination	-1,861,378	—	—
Total	5,742,301	69,904	34,451

Note: Inter-segment elimination refers to the centralized adjustments involving the Group or a number of branch offices (such as inter-entity balances and open credit).

(II) Segment operating results by business line*(Unit: RMB million)*

Item	Total assets (excluding deferred income tax assets)	Operating income	Profit before income tax
Corporate banking business	1,691,743	28,900	13,657
Personal banking business	1,005,860	24,633	9,337
Treasury business	2,858,554	13,780	9,728
Other businesses	186,144	2,591	1,729
Total	5,742,301	69,904	34,451

Discussion and Analysis on Business Operation

VIII. Other Financial Information

(I) Items relating to fair value measurement

1. Internal control system relating to fair value measurement

In order to regulate fair value measurement, improve the quality of financial information, strengthen risk management and protect the legitimate interests of investors and all relevant parties, the Company has formulated the Administrative Measures regarding Fair Value (《公允價值管理辦法》) based on the Accounting Standards for Business Enterprises (《企業會計準則》), which expanded the scope of fair value measurement to cover the initial measurement of certain financial assets and financial liabilities; and clarified and refined the principles, methods and procedures for determining fair value. With the aim to enhance the rationality and reliability of the valuation of fair value, the Company has assigned specific working responsibilities to relevant managing departments for fair value management so as to continuously strengthen research on the valuation of its asset and liability businesses and improve internal valuation capabilities. The Company will also gradually optimize and employ the valuation models and systems and strengthen the verification of prices obtained externally. Moreover, the Company has correspondingly implemented internal control measures over the process of fair value measurement, including double-checking on price enquiry and confirmation, and adopting an evaluation procedure on fair value measurement which requires the person-in charge and reviewer to sign off in order to give effect to the measurement. Furthermore, the Internal Audit Department actively followed and rectified related problems by supervising and checking the range determined for fair value measurement and measurement methodology and procedure, so as to improve internal control within the Company.

2. Financial instruments measured at fair value

The Company's financial instruments measured at fair value include: financial assets/liabilities at fair value through profit or loss, derivative financial instruments, available-for-sale securities and precious metals. In particular, the valuation methods of financial assets at fair value through the profit or loss and the bond investment of the available-for-sale security investments were listed as follows: for RMB bonds, in principle the valuation provided by China Central Depository & Clearing Co., Ltd. would apply; for bonds denominated in foreign currencies, market value was determined through a combination of Bloomberg quotes and enquiries; the fair value of most derivative financial instruments was obtained directly from quotes of market prices and assessment model, while the fair value of certain derivative financial instruments in which customers are interested was obtained from market enquiries; and the valuation of foreign exchange option was obtained from Bloomberg quotes. Derivative financial instruments mainly consisted of interest rate swap contracts to which customers are parties and proprietary interest rate swap contracts, the market risks of which had been hedged. The changes in fair value had little impact on the profit of the Company. Changes in fair value of available-for-sale securities were considered when calculating shareholders' equity.

Discussion and Analysis on Business Operation

(Unit: RMB million)

Item	1 January 2017	Gain/loss from fair value changes for the period	Accumulated fair value changes charged to equity	Impairment allowance for the period	30 June 2017
Financial assets					
Of which: Precious metals	22,591	1,182	—	—	24,162
Financial assets at fair value through profit or loss	89,740	248	—	—	66,576
Positive fair value of derivatives	7,843	440	329	—	9,722
Available-for-sale securities	306,927	—	-3,298	—	311,549
Total	427,101	1,870	-2,969	—	412,009
Financial liabilities					
Of which: Financial liabilities at fair value through profit or loss	868	25	—	—	627
Negative fair value of derivatives	10,277	-489	—	—	9,788
Total	11,145	-464	—	—	10,415

(II) Overdue and outstanding liabilities

As at the end of the Reporting Period, the Group had no material outstanding liabilities that were overdue.

IX. Performance of Key Business Lines**(I) Corporate banking**

During the Reporting Period, in response to new challenges and opportunities arising from the changes in internal and external operating environments, the Company laid equal emphasis on operation and development and transformation and upgrade, and strove to position itself as “a professional commercial bank”, “a scenarized transaction bank” and “a customized investment bank” in order to further strengthen its corporate banking business.

Discussion and Analysis on Business Operation

1. Customer base of corporate banking

During the Reporting Period, adhering to the customer-oriented management philosophy, the Company further consolidated its customer base, refined its service systems for different groups of customers and innovated customer service model to provide comprehensive, intelligent and one-stop services for better customer experience. It is the objective of the Company to be “a bank of best customer experience”. As at the end of the Reporting Period, the number of domestic corporate customers with deposits of the Company increased by 75.2 thousand, or 8.96%, to 914.4 thousand as compared with the end of previous year. The number of domestic customers of the Company with general loans balance was 11,759.

2. Corporate deposits and loans

During the Reporting Period, the Company strengthened the development of its settlement platform and expanded institutional finance to significantly increase low-cost core liabilities while exiting business relating to certain high-cost deposits. However, deposits growth was under pressure because of the unfavorable external environments such as slower M2 growth and deleveraging of companies. As at the end of the Reporting Period, the balance of corporate deposits of the Company amounted to RMB2,438,437 million, representing a decrease of RMB64,603 million, or 2.58%, as compared with the end of the previous year.

During the Reporting Period, in response to the new changes and trends of the national economic development as well as the upgrades and transformation of the industrial and consumption structures, the Company actively developed businesses in the emerging industries and consumption-driven industries with promising prospects and market size, participated in major infrastructure projects supported by the national key strategies and in the construction of new urbanization, and seized the business opportunities of mergers, acquisitions and integration arising from the restructuring of traditional industries and the transformation and upgrade of leading enterprises. The Company also optimized its credit business structure by minimizing and disposing of non-performing loans in industries with overcapacity, such as steel and coal industries. As at the end of the Reporting Period, the outstanding balance of corporate loans (including discounted bills) of the Company amounted to RMB1,683,092 million, representing an increase of RMB126,707 million, or 8.14%, as compared with the end of the previous year. In particular, the outstanding balance of general corporate loans amounted to RMB1,581,074 million, representing an increase of RMB189,142 million, or 13.59%, as compared with the end of the previous year. The impaired corporate loan ratio was 1.49%.

Discussion and Analysis on Business Operation

3. Investment banking

During the Reporting Period, the Company completed the reform of its investment banking business. Streamlined organizational structure and management system were established to fulfill the requirements of investment banking business and a professional and effective risk control and management system and operational procedures were developed. The Company adopted a market-oriented incentive and restraint mechanism for its investment banking business team, which led to a remarkable improvement in its business competitiveness.

In respect of the investment banking business, focusing on four major segments including the medical and healthcare industry, cultural and entertainment consumption industry, high-end manufacturing and information technology industry as well as government and investment institutions industry, the Company further expanded to sub-segments to explore the demands of customers. The Company established four major business lines, including private placement, mergers, acquisitions and restructuring, pre-IPO investment and financing, and industry (government) funds, and developed an investment banking business system with debt financing and asset securitization as the core products.

During the Reporting Period, the Company maintained steady business growth in the capital market. With its continuous enhancement in the investment and research in key industries and the capability to serve different groups of customers, the Company took the lead to complete a number of significant projects with high market influence relating to areas including cross-border mergers and acquisitions, industrial integration, and pre-IPO investment and financing.

In respect of the asset securitization business, the Company further consolidated its leading position in the market. In addition to the offering of the existing credit asset securitization product of “Qi Fu (企富)”, the Company also persisted in innovation based on its corporate asset securitization product, “Hui Fu (匯富)”, to satisfy the diversified needs of customers. The Company successfully launched a series of securitized products, such as the non-performing asset-backed securities of “Hong Fu (鴻富)”, the securities backed by assets of an infrastructure PPP project, being the first in China, the securities backed by the accounts receivable in the pharmaceutical distribution industry, and the securities backed by public affordable housing assets. In the first half of the year, the Company was awarded the “Pioneer Enterprise of the Year (企業類年度新銳獎)”, “Enterprise of the Year for Excellent OTC Product (企業類年度場外優秀產品獎)”, and “Top 10 Trades of the Year (年度十佳交易獎)” by the Annual Conference of the China Securitization Forum (中國資產證券化論壇年會).

Discussion and Analysis on Business Operation

In respect of the bond underwriting business, despite the adverse impacts from higher market interest rate, increasing risk in bond defaults and a significant decrease in the domestic issuance of bonds in the first half of the year as compared with the corresponding period of the previous year, the Company managed to maintain a stable industry ranking and its effective risk control. The first innovative enterprise accounts receivable asset-backed note (ABN) was successfully issued. During the Reporting Period, bonds issuance business of the Company amounted to RMB76,281 million.

4. Transaction Banking

During the Reporting Period, to satisfy the emerging demands for more diversified and scenarized financing options of enterprises, the Company continued to upgrade its online corporate business by setting up a new online corporate financing platform and enriching the scenarized financial service offerings in order to rebuild its competitiveness in the international market, consolidate its differentiated advantages in trade finance and deepen the transformation and upgrade of the integrated development mode of transaction banking business.

Firstly, the Company made innovations in supply-chain financial service model and rapidly expanded its online corporate financing business. During the Reporting Period, the Company further refined the online financing platform, optimized the product mix of “Online Financing E (網絡融資E)” series, and developed and launched online financing pledged by wealth management products, “Credit Sale E (除銷E)”, a supply chain product, and other products of more customized corporate credit options for online financing. The Company put efforts in the construction of a new supply-chain financial service platform and preliminarily established a new corporate financial service model featuring “Internet-based, intelligent and visualized” services. The size of online corporate financing was expanded rapidly.

Secondly, the innovation on scenarized settlement and cash management products was further enhanced, which effectively expanded the customer base. During the Reporting Period, the Company focused on the financial needs of strategic customers and enhanced the quality of services for group customers through further improvement of products such as the “Cash Pools (現金池)” and “Bank & Corporate Express (銀企直連)”. At the same time, the Company exerted efforts in the expansion and improvement of product systems for the “Express (通)” series by offering more scenarized services and increasing the communication channels for customers in order to effectively serve the long-tail customers, such as medium, small and micro enterprises and innovative enterprises, boosting the rapid growth of customer base.

Discussion and Analysis on Business Operation

Thirdly, the performance of value-added deposit products was optimized and quality of online services was enhanced. The Company conducted research and development and upgraded the products of “Roll-over Profit (流動利)” series, and introduced a new group version of “Roll-over Profit E (流動利E)” products to further increase the attractiveness of “Roll-over Profit (流動利)”. The Company also enriched the features of certificates of corporate deposit with the development of a transaction platform for certificates of deposit, and improved the online services for “Cash Earnings (現金盈)” series, which further strengthened the Company’s competitiveness through product differentiation.

Fourthly, international business continued to expand rapidly by adapting to the changing external environment. During the Reporting Period, the Company paid close attention to the changes of external environment with focus on the internationalized business needs of customers. The Company strengthened the promotion and application of key products, and launched the “Cross-border Express (跨境通)”, a one-stop cross-border integrated financial service solution consisting of five major products, namely cross-border financing, cross-border fund management, “Cross-border E+ (跨境E+)”, cross-border synergy and international credit. As a result, the volume of cross-border settlement increased progressively and loans denominated in foreign currencies increased significantly.

Fifthly, the Company progressively innovated products covering the whole value chain and pushed forward the transformation and development of its trade finance and factoring business. During the Reporting Period, the Company successfully issued the first accounts receivable asset-backed notes in batch mode in China, which set up a new channel between the traditional trade finance and the capital market, and further enhanced the Company’s distinctive competitiveness in its trade finance business. In addition, the Company managed to consolidate its leading position in factoring business among its peers. The Company accelerated the promotion of distinctive products, such as non-recourse factoring and “N+1” factoring, and refined business models and procedures. The Company vigorously promoted the application of accounts receivable solutions to specific industries, including pharmaceuticals, engineering, public utilities and TMT.

During the Reporting Period, the innovation efforts of the Company for its transaction banking business were widely recognized by the society. The Company was awarded the “Best Supply-chain Financing Bank (最佳供應鏈金融銀行)” by China Banking Association and the “Top Ten Innovative Financial Products (十佳金融產品創新)” by the Banker (《銀行家》), which further increased the brand influence of the Company.

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(II) Retail banking

During the Reporting Period, the macro-economic situation was moving steadily towards the positive end, which created a favorable external environment for the development of retail banking business. Furthermore, due to restriction measures on purchase of and mortgage for residential housing in some cities, the finance deleveraging led to sharp increase in capital costs and brought about new problems and challenges to the development of retail banking business.

The Company enhanced the analysis and studies on the economic situation and market environments to timely adjust the operation strategies and measures for retail banking. The Company adhered to the principle of increasing income and focused on establishing an operating system and wealth management system for different groups of customers. It further promoted the innovation in credit card products and services, and deepened the strategic transformation of small business finance and private banking so as to achieve a rapid and healthy development in retail banking business.

During the Reporting Period, net operating income from retail banking of the Company was RMB24,285 million, accounting for 36.15% of the total operating income of the Company, which represented an increase of 3.13 percentage points as compared with the end of the previous year. The contribution of retail banking business grew significantly. Net non-interest income from retail banking business was RMB11,567 million, accounting for 47.63% of net income from retail banking business, and 42.67% of net non-interest income of the Company, which represented an increase of 2.93 percentage points as compared with the end of the previous year.

1. Retail customers

The Company endeavoured to improve its group-based operating system for retail customers in order to enhance its operating capability. Based on the three major customer bases, being personal customers, small and micro enterprise customers and private banking customers, the Company further refined the customer classification for differentiated marketing approaches. Differentiated asset allocations and product distributions were organized to better satisfy diversified needs of different groups of customers and improve services.

During the Reporting Period, the Company further upgraded its retail banking brand and positioned itself as a “considerate bank (懂你的銀行)”. The Company organized a series of “considerate bank day (懂你主題日)” activities to promote the strategic upgrading of its retail banking brand. The Company also strengthened the synergy between corporate banking and retail banking for cross-selling and developed a quality customer acquisition platform through its payroll service and ETC business. The Company also enriched its customized product offerings through the

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launch of several distinctive deposit products, such as “Memorial Deposit Certificates (禮儀存單)” and “Time Deposit Package (定多利)”, and scenarized products such as WeChat “Payment Express (繳費通)” and transfer of certificates of deposits. The source of customers was expanded, and new growth momentum for business development was created.

As at the end of the Reporting Period, the number of retail customers with deposits was 32,597.5 thousand, representing an increase of 2,259.9 thousand as compared with the end of the previous year.

2. Financial assets

During the Reporting Period, the Company continued to improve its asset allocation and strengthen the marketing of its product portfolios in response to the diversified investment needs of its customers. In accordance with the changes in the capital market and the latest trend of asset management, the Company improved its selection and marketing of quality funds and put efforts in promoting automatic investment plans (AIP). Furthermore, the Company speeded up the transformation of its sales approach for insurance products by increasing the options and enhancing the marketing of principal guaranteed insurance products with regular premiums. The supply and sales mechanisms of wealth management products of the Bank were also optimized with an aim to boost the sustainable growth of wealth management business.

During the Reporting Period, the Company organized series of marketing activities, including “Celebrating the Year of Rooster (聞雞起舞)” and “Pay-roll Account Lucky Draw (心悅, 從薪出發)”. Based on the new classification policy for retail customers, the Company provided customers with wealth management services of higher quality with emphasis on asset allocation so as to win their recognition. The financial assets of retail customers managed by the Company recorded a steady increase.

As at the end of the Reporting Period, financial assets of retail customers managed by the Company amounted to RMB1,368,573 million, representing an increase of RMB106,560 million as compared with the end of the previous year. Among which, savings deposit amounted to RMB537,991 million, representing an increase of RMB9,794 million as compared with the end of the previous year.

3. Retail loans

During the Reporting Period, in line with the changes in residential housing policies and capital costs, the Company further refined the extension and allocation of loans, promoted instalment

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payment of credit cards, loans to small and micro enterprises and consumption loans, and adjusted the structure of retail loans to increase revenues from the loan business. In addition, the Company continued to promote steady growth of secured loans to small and micro enterprises and improved guarantee structure of such loans so as to enhance its ability of risk prevention and control.

During the Reporting Period, the Company exerted efforts in making innovations in credit products and further expanded the application of the Internet and big data to the credit business. Various new credit products, such as fixed-cap loans, personal loans for high-end customers and automatic credit extension, were launched. The Company also promoted automatic services for targeted customers such as corporate customers in need of payroll services and individual customers of enterprises with strong performance, as well as credit products for small and micro enterprises such as “Cloud Loan (雲快貸)” and “Online Loan 2.0 (網樂貸2.0)”.

As at the end of the Reporting Period, outstanding balance of retail loans of the Company amounted to RMB1,007,119 million, representing an increase of RMB117,950 million as compared with the end of the previous year. Among which, loans to small and micro enterprises bottomed out and increased by RMB9,942 million to RMB337,078 million as compared with the end of the previous year. Pledged loans to small and micro enterprises accounted for 69.14% of the total loans to small and micro enterprises, representing a significant increase of 7.22 percentage points as compared with the end of the previous year. The risk resistance capability was further strengthened. The balance of mortgage loans amounted to RMB349,171 million, representing an increase of RMB53,970 million as compared with the end of the previous year.

4. Small business finance

During the Reporting Period, the Company continued to implement its “small business finance strategy” in line with the new development model under the Phoenix Project. It continued to enhance the operation for classified groups of customers, optimized structure of its asset business, promoted cross-selling between different groups of customers and deepened the transformation and upgrade of development model of small business finance.

Firstly, asset structure was further adjusted to mitigate business risks. During the Reporting Period, in respect of small business finance, the Company strove to solicit quality customers and enhance risk identification and analysis of new customers through quantitative decision-making model in order to progressively increase the proportion of quality customers. In addition, the Company accelerated the introduction and promotion of secured products, emphasized the upgrade of online marketing ability for secured loans, and promoted new products such as “Cloud Loan (雲快貸)”. Extension of secured loans was increased significantly to reduce credit risks.

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Secondly, differentiated pricing management of small business credit was put in place to enhance the management. During the Reporting Period, according to a thorough analysis based on overall contributions of customers, risk conditions and regional interest rate level, differentiated pricing in respect of credit extension was implemented for small business finance of the Company, which further improved the Company's operation and services.

Thirdly, the Company enhanced product and service innovations and established a simplified online operating system. New products and services including "Happy Payment 3.0 (樂收銀3.0)" and e-accounts were upgraded while new products such as "Cloud Pledge (雲抵押)" were put online during the Reporting Period. The Company made good use of new technologies such as mobile Internet and big data to promote simplified and handy online to offline (O2O) services for small finance business.

Fourthly, in order to further accommodate the differentiated financial needs of small and micro enterprises and improve its overall ability to provide financial services to these enterprises, the Company consistently enriched and optimized the product profile for small business finance and enhanced cross-selling of major products that could generate huge intermediate income such as insurances, funds and wealth management products during the Reporting Period. As such, more intermediate services were provided and more intermediate income was gained.

Fifthly, greater efforts were put into acquiring settlement customers so as to expand the customer base. The small business finance of the Company was conducted based on the principle of "operating in accordance with customer group classification (客群細分經營)". Major settlement products such as QR code cashier and cloud accounts were promoted to improve the settlement experience in the front end and expand the customer base in accordance with the philosophy of "settlement comes first, followed by cross-selling and duly provision of loans (結算先行，交叉銷售，適時開展授信)".

As at the end of the Reporting Period, the Company had 4,496.2 thousand customers being small and micro enterprises, representing an increase of 374.9 thousand, or 9.10%, as compared with the beginning of the year. During the Reporting Period, the Company provided a total of RMB209,324 million of loans to small and micro enterprises.

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5. Credit card business

During the Reporting Period, adhering to its philosophy to maintain market-oriented operation and pursue innovation, the Company recorded stable growth in the business of credit cards. In respect of product innovation, in order to expand its credit card business to young customers, the Company issued JD Xiaobai Card (京東小白卡), Tongdao Dashu Horoscope Co-branded Card (同道大叔星座聯名卡) and Huaqiang Mobile Game Co-branded Card (花千骨手遊聯名卡). The Company also issued the China Resources Co-branded Card (華潤通聯名卡) for all members of different business units under China Resources to accumulate and redeem bonus points. An upgraded UnionPay card with a youngster-oriented design was introduced to provide a number of exclusive benefits to white collar cardholders, including flight delay insurance and access to lounges in airports and high speed rail stations. In respect of marketing innovations, various campaigns were held, including a referral reward programme under which customers were encouraged to refer new customers and would receive rewards for successful cases, “616 Shua Da Pai (616耍大牌)” lucky draw in celebration of the 12th anniversary of the credit card, and the upgraded “Every Day, Minsheng Day (天天民生日)” which allowed customers to enjoy different exclusive offers every day with RMB7 or 7 bonus points. Various discount offers were given to customers, including instant rebates for certain purchase amounts at Carrefour, lucky draws during the Chinese New Year, overseas purchase discounts, instant rebates for certain purchase amounts at McDonald’s via mobile payment and buy-one-get-one-free offers on buffets at five-star hotels. The Company also organized “517 Foodies Festival (517吃貨節)”, “UnionPay Card Friends Festival (銀聯卡友節)” and “Summer Film Festival with Dianping.com (大眾點評暑期觀影節)”. In respect of technological innovations, the Company developed an application platform where online application form was shortened to one page from four pages and contained more multiple choice questions instead of fill-in-the-blank questions. Customer experience was effectively enhanced. In respect of innovations in asset disposal, the Company successfully launched the first phase of Hongfu Non-performing Asset Securitization Project for 2017 (鴻富2017年第一期不良資產證券化項目), being its first non-performing asset securitization project backed by non-performing assets of credit cards.

As at the end of the Reporting Period, the aggregate number of issued credit cards of the Company was 32,888.9 thousand, of which, 4,552.5 thousand were newly issued during the Reporting Period. Transaction volume of credit card business was RMB726,349 million, representing an increase of 25.26% as compared with the corresponding period of the previous year. Accounts receivable amounted to RMB246,998 million, representing an increase of 19.11% as compared with the end of the previous year. Net non-interest income amounted to RMB9,443 million, representing an increase of 29.30% as compared with the corresponding period of the previous year.

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During the Reporting Period, the Company were awarded the “Most Influential Brand Award in the PRC Consumption Market (中國消費市場行業影響力品牌)” for 2017, “Most Innovative Product Design Award (最佳產品設計創新獎)” by VISA, “Best Credit Card for Women (最佳女性信用卡)” for 2016 by MasterCard and “Best Creativity Award for 2016 (2016年度最佳創意獎)” by JCB.

6. Private banking business

During the Reporting Period, in the private banking sector, the Company, based on its deep understanding of its clients, established the service philosophy of “One Body and Three Wings (一體三翼)”, which majored in wealth management, featuring “investment banking + (投行+)”, guided by globalization strategy and supported by “Internet + (互聯網+)”. The Company introduced various new products for its assets management, investment, trust and special investment funds businesses to enrich its offering of customized products and to meet the needs of wealth management customers. To provide better and more customized capital services in respect of investment, financing, mergers and acquisitions and restructuring for high-net-worth customers based on its experience in various markets, the Company worked closely with overseas institutions for the establishment of overseas asset allocation platform for overseas trust and overseas insurance services. Guided by “Internet + (互聯網+)” concept, the Company enhanced customer experience through its unique wealth management service supported by fintech. Attributable to the UPPER efficiency enhancement techniques, the Company provided customers with professional one-stop services including wealth management, advisory, exclusive private banking products and VIP non-financial services.

As at the end of the Reporting Period, the private banking financial assets under the management of the Company amounted to RMB302,847 million, representing an increase of RMB6,099 million as compared with the end of the previous year.

7. Community finance

During the Reporting Period, the Company pushed forward the upgrade of its community financial business model, improved distribution of the community outlets and focused on efficiency management of the outlets in order to improve the quality of its community financial services. Efforts were also made to continuously dig out the potentials of community finance and provide desirable customer experience. During the Reporting Period, community finance of the Company experienced a rapid growth. The amount of community financial assets managed by the Company exceeded RMB200 billion and the average financial assets of each outlet exceeded RMB100 million. As at the end of the Reporting Period, 1,653 community sub-branches had licenses, representing a decrease of 41 sub-branches as compared with the end of the previous year. Financial assets balance of the community outlets amounted to RMB201,737 million, representing an increase of RMB35,381

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million as compared with the end of the previous year. Total number of customers of community outlets reached 5,355.6 thousand, representing an increase of 735.0 thousand as compared with the end of the previous year.

(III) Treasury business

1. Investment business

As at the end of the Reporting Period, net investment balance of the banking books of the Company amounted to RMB1,985,032 million, representing a decrease of RMB126,198 million, or 5.98%, as compared with the end of the previous year. The investment balance of the trading books of the Company amounted to RMB61,246 million, representing a decrease of RMB25,042 million, or 29.02%, as compared with the end of the previous year. As at the end of the Reporting Period, the percentage of the investment balance of Company's trading and banking books in the total assets of the Company decreased by 1.71 percentage points as compared with the end of the previous year.

2. Interbank business

During the Reporting Period, the Company targeted on core customers and enhanced management on customer marketing plans for its interbank business. By taking initiative in the operation and management, improving business structure, and enhancing profitability and risk control, the interbank business systems were developed in an effective way, which promoted the steady growth of interbank business.

Firstly, the Company fully implemented the "One Customer One Policy (一戶一策)" marketing plan. In the first half of the year, the customized, demand-oriented and personalized management approach under "One Customer One Policy (一戶一策)" was implemented. Target for acquisition of 300 core customers were successfully completed, and the online management and design as well as checking for updates were put into operation.

Secondly, the construction of interbank strategic cooperation platform was fortified. During the Reporting Period, the Company entered into strategic cooperation agreements with financial institutions including Aeon Life, Zheshang Securities, Minsheng Securities and Zhongguancun Bank, and successfully held the Seminar on Asset Securitization Business Development of China Minsheng Bank (中國民生銀行資產證券化業務發展研討會) with the aim to develop a new model of win-win cooperation in asset securitization. The Company organized a summit on cooperation with rural commercial banks to enhance their cooperation.

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Thirdly, systematic, informationalized and digitized interbank customer management was preliminarily achieved. During the Reporting Period, the second phase of the online CRM system designed for interbank customers was put into service. Various functions targeting at interbank customers, including sorting and compilation of information, online product support, exchange of marketing experience and sharing of research reports, became available, signifying a new stage for centralized, segmented and precise management of interbank customers.

As at the end of the Reporting Period, the Company had interbank assets amounting to RMB296,747 million and interbank liabilities amounting to RMB1,267,356 million, respectively.

3. Wealth management business

During the Reporting Period, the wealth management market experienced drastic changes and the interest rate of the market climbed up sharply. However, the sales to financial institutions of wealth management products, which had experienced rapid growth last year, shrunk in all aspects as affected by the government policies. In strict compliance with the requirements of the regulatory policies, the Company put efforts in overcoming the effect from the unfavourable market environment by expanding the customer bases of retail banking and corporate banking with more diversified product offerings of wealth management. The Company satisfied the needs of investors in various aspects including asset value preservation and appreciation, and developed its brand of “Apex Asset Management (非凡資產管理)”. The Company closely followed the major national strategies and supported the development of real economy with various instruments. The Company strove to increase its investment income through controlling leverage ratio and optimizing its management of asset portfolio. The Company attached great importance to the risk management of wealth management business. A risk management system covering the whole procedures was established to protect the interests of investors with professional risk management. As at the end of the Reporting Period, the existing scale of wealth management products of the Company amounted to RMB1,210,208 million.

4. Custody business

The Company highly valued its asset custody business. The Company continued to develop business cooperation platform in response to the market changes, and achieved rapid growth in the custody businesses for trust assets, insurance funds, securities investment funds and asset management for customers of securities firms. Meanwhile, the Company exerted efforts in developing comprehensive financial services in respect of custody for key customers aiming to improve customer satisfaction. The custody business has maintained steady growth. As at the end of the Reporting Period, balance of asset under custody of the Company amounted to RMB7,322,309 million and revenue from asset custody business was RMB1,497 million.

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In respect of pension business, the Company highly valued the pension business opportunities brought about by the reform and optimization of the pension system in the PRC. It actively promoted the development of pension business underpinned by corporate annuity and pension security products in order to provide institutional and personal customers with quality and comprehensive pension financial services based on pension custody and account management. As at the end of the Reporting Period, the Company had RMB48,411 million of pension under custody and managed 170.7 thousand corporate annuity accounts.

5. Precious metals and foreign exchange trading

During the Reporting Period, the on-floor trading volume of gold, including agency sales for legal persons and individuals, of the Company in the precious metals market (the Shanghai Gold Exchange and the Shanghai Futures Exchange) amounted to 1,168.72 tons, and the trading volume of silver, including agency sales for legal persons and individuals, amounted to 954.67 tons. The total trading value amounted to RMB337,488 million. In terms of on-floor trading value, the Company was the sixth largest dealer at the Shanghai Gold Exchange and one of the important domestic gold importers.

During the Reporting Period, the Company leased 87.88 tons of gold to its corporate customers and sold physical gold of 440 kilograms under its own brand to individual customers. The Company effectively satisfied the needs of customers with diversified products. The outlook of further progress in the market was bright.

During the Reporting Period, the transaction volume of domestic spot settlement of the Company amounted to USD289,079 million, representing an increase of 154.94% as compared with the corresponding period of the previous year. The transaction volume of forward settlement and RMB exchange swap of the Company amounted to USD339,392 million, representing an increase of 39.67% as compared with the corresponding period of the previous year. The Company actively introduced options and its related portfolios and recorded RMB-Forex option trading volume of USD21,419 million, representing an increase of 226.06% as compared with the corresponding period of the previous year.

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(IV) Innovation of personal Internet finance and services

During the Reporting Period, the Company seized the market opportunities and actively applied cutting-edge fintechs. Based on the analysis of diversified needs, the Company focused on the innovation of online financial platforms, products and services such as direct banking, mobile banking, online payment, WeChat banking and online banking, which further enhanced the customers' experience. It also consolidated the Company's position as one of the top commercial banks in terms of market share.

1. Direct banking

During the Reporting Period, the Company further consolidated its leading position in direct banking and enhanced the awareness and reputation of its Internet finance brand. The Company continued to optimize its website, mobile apps, WeChat banking and H5 page to enhance customers' experience and its service efficiency by conforming to the needs and practice of Internet users. A comprehensive financial product and service platform providing deposit, loan, remittance, investment and payment services has been formed after the direct banking has been put into service for three years. Under the comprehensive cooperation with major online platforms, new businesses such as "finance + communication" and "finance + technology" have been developed to provide Internet users with more intelligent, more user-friendly, more convenient and more diversified financial services. As at the end of the Reporting Period, the number of direct banking customers reached 7,098.3 thousand, and the total subscription amount of "Ru Yi Bao (如意寶)" amounted to RMB1,717,433 million.

2. Mobile Banking

During the Reporting Period, the Company constantly developed innovative user-oriented mobile banking products. The new mobile banking version 3.6 was launched, integrating personal banking services and small business banking services. Over 500 new functions covering online investment and financing, overseas services and localized products of branches were put to service, all of which were well received by customers. The Company further introduced more new technologies to explore scenarized applications and launched new services such as fingerprint login, fingerprint authentication payment, iris payment, QR code scanning for cash withdrawals at ATM and Minsheng QR code payment. The Company also strove to provide comprehensive services that covers almost every corner of daily life by launching applications and functions such as JD.com (京東商城), selected insurance products, 51baomu.cn (無憂保姆), lexiang19.com (樂享優品), shopping tax refund, art investment and collection, overseas best buy and group buying of branded goods. In order to fulfill diversified needs of customers in daily life, the Company also offered 99 payment services at over 20 branches, including settlement of electricity bills, water bills and cable television fees as well as collection of fees for enterprises and schools. The Company organized more than ten promotional and marketing campaigns.

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As at the end of the Reporting Period, the number of the Company's mobile banking customers reached 27,984.0 thousand, representing an increase of 3,232.6 thousand as compared with the end of the previous year. The number of transactions for the Reporting Period was 229 million, representing an increase of 13.93% as compared with the corresponding period of the previous year, while the transaction turnover for the Reporting Period amounted to RMB4.68 trillion, representing an increase of 20.62% as compared with the corresponding period of the previous year. The Company ranked top in the banking industry in terms of transaction activities of customers.

3. Online payment

During the Reporting Period, the Company seized the opportunities to expand its presence in the online payment market. Focusing on the two core systems of online payment and mobile payment, the Company has built up the brand of "Minsheng Payment ® (民生付®)". Confirming to customers' demands and market trend, the Company enhanced the research and development of products and platforms, and launched innovative scenarized payment services and industrial applications. Apart from quick payment products such as ApplePay, SamsungPay, HuaweiPay and MiPay, the Company also launched smart wearable payment devices, including Ticwatch payment (出門問問手錶支付) and Huawei watch payment (華為手錶支付), as well as QR-code payment for direct banking Type II accounts. In addition, the Company further promoted the collaboration with renowned companies such as UnionPay and Internet companies to develop various payment methods and new digital functions such as Minsheng Quick Payment (民生快付).

As at the end of the Reporting Period, the number of customers using Kuahangtong (跨行通), an interbank transaction product of the Company totaled 3,227.5 thousand, representing an increase of 610.6 thousand as compared with the end of the previous year, and the total fund involved amounted to RMB253,886 million. During the Reporting Period, total amount of personal online payment transactions amounted to RMB462,002 million. Total transaction amount of fund sales supervisory business amounted to RMB299,156 million. Currently, the Company has established supervision cooperation with more than 360 fund sales agencies, taking up a market share of over 60%.

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4. WeChat banking

During the Reporting Period, the Company continued to optimize the functions of WeChat banking and provided its customers with three major daily financial services, namely micro finance, easy wealth management (悦理财) and convenient daily services (惠生活). The Company upgraded the Instant Account Notification and developed cloud accounts. An official WeChat account of the Bank was set up to serve as the integrated operation and management platform, forming a “we media” matrix and customer referral system. Through extensive promotions by vital marketing and cross-industry marketing campaigns via social media, the Company was able to integrate resources, combine data and operate users in order to enhance the recognition and influence of its major products and businesses. The number of followers of the Bank’s official WeChat account continued to increase.

As at the end of the Reporting Period, the number of customers using the Company’s WeChat banking service amounted to 21,588.6 thousand, ranking top among all peers.

5. Online banking

During the Reporting Period, the Company reinforced its position as an online banking channel for complicated transactions by consistently upgrading and optimizing its online banking products. New functions including assets overview for customers were introduced, and a new marketing zone was set up to allow customers to learn about the Company’s online banking products. The Company introduced Minsheng Remittance Express (民生快匯匯路), which lowered the transaction costs for transfer and remittance. In response to the calls of the Internet Banking Union for improving financial inclusion, the Company has waived the handling fees for all transfers via online banking.

As at the end of the Reporting Period, the number of personal online banking customers of the Company was 17,445.7 thousand, representing an increase of 1,200.5 thousand as compared with the end of the previous year. The number of transactions was 971 million. The transaction turnover amounted to RMB5.29 trillion. Transaction replacement rate of personal online banking was 99.51%. During the Reporting Period, the Company’s sales of personal wealth management products via electronic channels maintained a rapid growth and amounted to RMB1.41 trillion, accounting for 97.65% of the total sales of the Company’s personal wealth management products.

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(V) Overseas business

The Company intensified the development strategy of globalization and expanded its overseas layout steadily. Being the first overseas branch of the Company, the Hong Kong Branch focused on developing the three major business segments, namely corporate business, financial markets business as well as private banking and wealth management business in accordance with the Company's strategy of "strengthening corporate banking, expanding retail banking and optimizing financial markets business". Capitalizing on the characteristics of the Company and the strategic position of Hong Kong as an international financial centre, the Hong Kong Branch has successfully established an overseas business platform for the Company after five years of development, which has strengthened the financial supports to Chinese enterprises for their overseas expansion in the process of the implementation of "Going Global" strategy and national strategies of the "Belt and Road Initiative" and the globalization of Renminbi. During the Reporting Period, the synergetic benefits from the structural adjustment of the Hong Kong Branch of the Company has been revealed progressively. All of the three major business segments of the Hong Kong Branch, namely corporate banking business, financial market business and private banking and wealth management business, have maintained strong growth momentum with increasing asset size and operational efficiency.

Benefiting from the cross-border synergy with the Head Office, the Hong Kong Branch has further strengthened the synergy between its foreign and domestic businesses. Adhering to the customer-oriented philosophy and seizing the strategic opportunities arising from the "Belt and Road Initiative", globalization of Renminbi and development of the Guangdong-Hong Kong-Macau Bay Area, the Hong Kong Branch focused on providing professional financial solutions with local features for quality customers who have actual overseas investments or intentions of overseas layout extension and asset allocations. The Hong Kong Branch has intensified corporation with the Head Office and other domestic members of the Group, large Chinese-funded securities enterprises in Hong Kong and well-known investment banks to build up a new channel to acquire customers. The Hong Kong Branch has provided support to enterprises in their overseas expansion by facilitating them to access to the overseas capital markets and providing them with comprehensive financial services of investment and commercial banking. Special efforts were made in services for the medical market. During the Reporting Period, the Hong Kong Branch completed 3 financing projects for mergers and acquisitions in the medical industry with financing amount of USD520 million.

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Leveraging on the advantages of Hong Kong as an international financial centre, the Hong Kong Branch has significantly expanded the financial markets business. During the Reporting Period, taking advantage of the high liquidity, stable assets quality and clear risk grading of the bond market, the Hong Kong Branch further expanded investment business in bonds. As at the end of the Reporting Period, the balance of bond investment and business related to the standard structural bills of the Hong Kong Branch amounted to HKD37,911 million, representing an increase of HKD15,537 million, or 69.44%, as compared with the end of the previous year. With the optimized assets structure and stable assets scale, the Hong Kong Branch of the Company has laid a solid foundation for the income growth from the treasury business. In respect of overseas bond issuance, during the past 12 months, the Hong Kong Branch of the Company has completed 20 underwriting projects for overseas bond issuance for customers including China Construction Bank, China Huarong Asset Management Co., Ltd., China Great Wall Asset Management Co., Ltd., China Cinda Asset Management Co., Ltd., Dongxing Securities Co., Ltd. and other large enterprises. On 27 April 2017, the Hong Kong Branch issued USD500 million medium-term notes, which was another proactive initiative of the Company in the international capital market since the issuance of USD preference shares last year. The success in the above issuance has shown the recognition of international investors on the operation and prospects of the Company, laying a solid foundation for the Company's overseas financing in the future.

In addition to consolidating its leading businesses, the Hong Kong Branch has put efforts in developing personal finance tailored to middle- to high-end customers in recent years. The private banking and wealth management centre of the Hong Kong Branch commenced operation on 28 June 2017, which has significantly extended the customer base of personal finance from private banking to middle- to high-end wealth management. Furthermore, the Hong Kong Branch has further capitalized on its domestic and overseas synergy and established an effective integrated customer service system, in order to provide its customers with various integrated financial services including cross-border account settlement, investment and wealth management, global asset allocation, financial security and inheritance. During the Reporting Period, the Hong Kong Branch had over 700 middle- and high-end private banking customers and the sales volume of "Minsheng Insurance (民生保)", a product series jointly launched with China Taiping Insurance, amounted to HKD2 billion.

The Hong Kong Branch has always been committed to the mission of "From the People, For the People" of the Company while expanding its business. It has integrated the culture of Minsheng Bank into its operation in Hong Kong and duly performed its social responsibilities, which has generated constant and considerable momentum for the sustainable and steady growth of the Company and has made valuable contribution to the integration of Hong Kong and China especially at the 20th anniversary of Hong Kong's reunification.

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As at the end of the Reporting Period, the Hong Kong Branch of the Company had total assets of HKD183,764 million, among which, balances and placements with other banks amounted to HKD71,682 million, corporate loans amounted to HKD70,927 million and investment bonds amounted to HKD37,911 million, respectively. As at the end of the Reporting Period, it had total liabilities of HKD183,272 million, among which deposits and placements from other banks and financial institutions amounted to HKD94,018 million, corporate deposits amounted to HKD59,449 million, issuance of certificates of deposit amounted to HKD14,280 million and medium-term notes amounted to HKD8,563 million, respectively. Net non-interest income and net interest income of the Hong Kong Branch amounted to HKD442 million and HKD669 million, respectively.

(VI) Channel management and operating services

1. Physical sales channels

An effective domestic sales network was established by the Company, which extended its business coverage to all provinces in Mainland China with focus on Yangtze River Delta, Pearl River Delta, Bohai Economic Rim and other regions. As at the end of the Reporting Period, the sales network of the Company had covered 123 cities, 129 branch-level institutions (including 42 tier-one branches, 78 tier-two branches and 9 remote sub-branches), 1,135 business outlets of sub-branches (including business departments), 1,653 community sub-branches, 153 small business sub-branches and 4,859 self-service banks (including on-site and off-site self-service banks) in China. The Company continued to promote the transformation of its outlets to be more customer-oriented, more simplified and smarter. During the Reporting Period, the Company had customized additional 221 outlets with a coverage ratio of 56.61%, and 542 remote service equipments.

2. Comprehensive upgrade of self-service banks

The Company launched a new version of self-service banks with a full-fledged upgrade in functions and management modes, which facilitated the transformation of self-service banks from alternative transaction channels to sales service channels. As at the end of the Reporting Period, the number of self-service banks decreased by 273 as compared with the end of the previous year to 4,859, and the number of self-service machines was 8,938, 96% of which were updated to the new version.

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3. Improvement in channel service management

The Company has established a system to supervise the service quality of different channels based on customers' experience in order to maintain quality service and consistent experience for customers. The Company provided services based on the principle of "creating value through dedicated services", which demonstrates its commitments to "professionalism, devotion, precision, sincerity, honesty, respect, companion, value creation and conveyance of happiness". During the Reporting Period, the Company conducted quality supervision on 1,100 sub-branch-level outlets, 839 community outlets, 112 self-services outlets and 84 rural bank outlets of the Group in respect of their services.

4. Operation management

During the Reporting Period, the Company strove to establish an integrated, intelligent and digitalized operational system to facilitate the improvement of customer services. In order to provide more secured, more convenient and more effective account services, the Company optimized the Bank's account system with comprehensive classification of personal accounts, and further improved its "Cloud Account" services for small and micro enterprises. The Company launched various innovative service applications, including remote banking, remote attestation and mobile operation, so as to further enhance its outreach services and remote services. The Company endeavored to ensure the security of customers' funds through encouraging customers to sign up for "Safe Account" and establishing quick check for fraudulent fund and stop-payment mechanism. By initiatively closing harmful accounts, the Company prevented and combated credit card fraud effectively. The Company was awarded "Police-Bank Joint Development Contribution Award for 2016 (2016年度警銀共建貢獻獎)" jointly by the Ministry of Public Security of the PRC and China UnionPay.

Discussion and Analysis on Business Operation

(VII) Major equity investments**1. Particulars of major equity investments****(1) Shareholdings in listed companies**

No.	Stock Code	Stock Name	Initial Investment (RMB'000)	Opening Shareholding Ratio (%)	Closing Shareholding Ratio (%)	Closing Book Value (RMB'000)
1	400061	Changyou 5	497,659	3.20	2.34	434,711
2	400062	Erzhong 5	467,503	2.66	2.66	278,381
3	000520	Changhangfenghuang	366,250	3.22	2.91	174,410
4	00866.HK	China Qinfu	117,078	15.31	15.31	82,636
Total			1,448,490			970,138

Note: The above table ranked the securities in terms of book value at the end of the Reporting Period.

(2) Shareholdings in unlisted financial institutions

No.	Name of Investee	Initial Investment (RMB'000)	Opening Shareholding Ratio (%)	Closing Shareholding Ratio (%)	Closing Book Value (RMB'000)
1	Minsheng Life Insurance Co., Ltd.	2,598,000	13.13	13.13	2,671,320
2	Huaxi Securities	476,075	2.99	2.99	476,075
3	China UnionPay Co., Ltd.	125,000	2.73	2.73	125,000
Total		3,199,075			3,272,395

Note: The above table sets out the shareholdings in non-listed financial companies held by the Group (not for transaction purpose) in which the shareholding ratio was 1% and above, and the initial investment was more than or equal to RMB100 million.

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2. Operations of major subsidiaries and management of consolidated financial statements

(1) *Minsheng Financial Leasing*

Minsheng Financial Leasing, one of the first five financial leasing companies with banking background approved by the CBRC, was established in April 2008. 51.03% equity interest of Minsheng Financial Leasing was held by the Company.

As at the end of the Reporting Period, the total assets of Minsheng Financial Leasing amounted to RMB172,079 million, representing an increase of RMB19,484 million, or 12.77%, as compared with the end of the previous year; net assets amounted to RMB15,464 million, representing an increase of RMB670 million, or 4.53%, as compared with the end of the previous year. During the Reporting Period, net profit amounted to RMB743 million, representing an increase of RMB63 million, or 9.26%, as compared with the corresponding period of the previous year. Annualized return on average equity was 9.82%, representing a decrease of 0.15 percentage points as compared with the corresponding period of the previous year.

During the Reporting Period, Minsheng Financial Leasing earnestly carried out the strategic transformation according to the strategic objectives of the Company. It adjusted the business directions, optimized the asset structure and deepened the comprehensive reform for innovative development. Firstly, it shifted its business directions to focus on three strategic sectors including jets, vessels and automobiles. The special products introduced into the market achieved satisfactory results, and profits contribution from these three sectors significantly increased as compared with the corresponding period of the previous year. In respect of jet business, it actively explored the overseas market in pursuit of overseas premium customer bases. Strategic partnerships have been established with internationally-renowned airlines, such as Korean Air. In respect of the vessel business, it cooperated with world-class shipping companies including the IMC Group in Singapore, Sinokor Merchant Marine Co., Ltd. and TORM in Denmark, which has further enhanced its international influence and profitability. In respect of automobile business, it stepped into the automobile retail business with an attempt to establish its presence in the comprehensive consumption market of automobiles. At the same time, with an aim to develop new growth points, great efforts were made to explore the five emerging areas including “comprehensive healthcare, big data, comprehensive environmental protection, comprehensive consumption and high-end manufacturing”. Secondly, in order to optimize the asset structure, it boosted strategic transformation by adopting the model with operating lease as the main “Body” and finance leasing and assets transaction as the “Two Wings”, which has achieved excellent results. Profits from operating lease and assets transactions increased significantly as compared with the corresponding period of the previous year. It also accelerated the asset reallocation in China in order to support the major national strategies such as the integrated development of Beijing, Tianjin and Hebei, development of Yangtze River Economic Zone and the “Belt and Road Initiative”. Thirdly, it

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continued to deepen the comprehensive reforms and established the Automobile Leasing SBU to focus on the vehicles, engineering mechanics and rail transportation segments. It aimed to promote the rapid and healthy development of automobile business by capitalizing on the systematic advantages of the specialized SBU. The risk management system was also reformed to incorporate the characteristics of Minsheng Financial Leasing. Fourthly, to further enhance the strategic synergy with the Company, it improved the communication mechanism to facilitate sharing of information, channels and customers as well as dynamic management of business cooperation. Strategic collaboration with the Company was consolidated, which has strengthened the integrated financial services and differentiated operation of the Company.

(2) Minsheng Royal Fund

Minsheng Royal Fund is a Sino-foreign fund management joint venture company established in November 2008 under the approval of the CSRC. 63.33% equity interest of the Minsheng Royal Fund was held by the Company.

As at the end of the Reporting Period, a total of 42 public equity products were managed under Minsheng Royal Fund, which covered major fund types with high, medium and low risks such as stock funds, hybrid funds, index funds, bond funds and monetary market funds. Net value of fund assets under its management was RMB78,100 million. The account management business of Minsheng Royal Fund continued to grow rapidly, and assets under its management amounted to RMB37,100 million as at the end of the Reporting Period. During the Reporting Period, net profit of Minsheng Royal Fund amounted to RMB168 million. According to the Fund Research Centre of Galaxy Securities, Minsheng Royal Fund ranked 31st among 117 fund companies in China in term of scale, maintaining a leading position among medium-sized fund management companies.

Minsheng Royal Fund initiated and established Minsheng Royal Asset Management on 24 January 2013 and held 40% equity interest of Minsheng Royal Asset Management. Minsheng Royal Asset Management's registered capital was RMB125 million and the scope of business included asset management business for specific customers, other businesses approved by the CSRC and investment consultancy. In addition to securities investment in traditional secondary markets, its specific scope of investment also includes managing and advising on investments in equities, bonds and other property rights not traded in any stock exchange. As at the end of the Reporting Period, assets managed by Minsheng Royal Asset Management amounted to RMB326,800 million. It achieved satisfactory business interaction and mutual supplement with the operations of Minsheng Royal Fund and has gradually emerged as an important strategic platform of the Company. The Company further optimized and enhanced the corporate governance system of Minsheng Royal Asset Management, and improved the management of consolidated financial statements in terms of strategic synergy, business coordination and risk control.

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During the Reporting Period, Minsheng Royal Fund was awarded two Golden Bull awards of 2016, including the “Top Ten Golden Bull Fund Management Companies (十大金牛基金管理公司)” and the “Golden Bull Award for Three-year Well-performed Open-end Hybrid Fund (三年期開放式混合型持續優勝金牛基金)”.

(3) CMBC International

CMBC International is a wholly-owned subsidiary of the Company established on 11 February 2015 in Hong Kong with the approval of the CBRC. It has a registered capital of HKD2 billion and is principally engaged in investment banking. CMBC International is an important integrated and globalized strategic platform of the Company and will closely cooperate with the Company so as to achieve synergies between the commercial and investment banking businesses and offer all-round and diversified financial services to the Company’s customers.

During the Reporting Period, CMBC International applied for and obtained type 6 license from the SFC. With the completion of the acquisition of Skyway Securities Group Limited, a listed company, it also acquired type 1, type 2, type 4 and type 9 licenses. As at the end of the Reporting Period, CMBC International had type 1, type 2, type 4, type 6 and type 9 licenses from the SFC and officially became a full-licensed player in investment banking. Its scope of business covers securities, margin services, futures, corporate financing, structural financing, direct investment, asset management as well as supporting services and solutions.

During the Reporting Period, with an aim to steadily form an integrated domestic and overseas structure, CMBC International established Ningbo CMBC Jintou Equity Investment Management Company Limited (寧波民銀金投股權投資管理有限公司) and Suzhou CMBC Jintou Fund Management Company Limited (蘇州民銀金投基金管理有限公司) to serve as the domestic platforms for direct investment and asset management. It has obtained the qualification of fund manager for private equity investment and venture investment from the Asset Management Association of China, enabling it to satisfy the demands for financial services in relation to direct investment and asset management in China.

During the Reporting Period, CMBC International was dedicated to enhancing its compliance management and improving its internal control system. More efforts were made to enhance the effectiveness of risk management through refining systems, internal control and management improvements. By focusing on the management of major aspects and timing prior to, during and after the investment and financing project, the overall risk prevention and control abilities were improved.

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As at the end of the Reporting Period, total assets, total liabilities and net assets of CMBC International amounted to RMB10,731 million, RMB8,678 million and RMB2,053 million, respectively. In the first half of 2017, net profit of CMBC International amounted to RMB76.74 million and, excluding changes in fair value, RMB73.59 million.

(4) Minsheng rural banks

Minsheng rural banks collectively refer to the rural banks initiated and established by the Company as a major promoter. As at the end of the Reporting Period, the Company established a total of 29 Minsheng rural banks with 87 business outlets. Total assets amounted to RMB33,136 million, representing an increase of RMB54 million, or 0.16%, as compared with the end of the previous year. Balance of deposits amounted to RMB28,100 million, representing an increase of RMB255 million, or 0.92%, as compared with the end of the previous year. The total loans balance amounted to RMB18,062 million, representing an increase of RMB1,619 million, or 9.85%, as compared with the end of the previous year. During the Reporting Period, net profit amounted to RMB118 million, representing an increase of RMB24 million, or 25.53%, as compared with the corresponding period of previous year.

During the Reporting Period, aiming to become “a digitalized international group (數字化、集團化、國際化)” as determined by the Board, the Company promoted the “One Minsheng (一個民生)” strategy by establishing a group management system featuring “One Central Office with Six Collaborative Departments (一個統一、六個協同)”. Minsheng rural banks have evolved to fulfill the social responsibilities of Minsheng Bank and to function as strategic foundation for the effective promotion of the brand and services of Minsheng Bank in the financial circles at county level.

During the Reporting Period, the Company optimized the management system of Minsheng rural banks with refined systems, mechanisms and procedures. Leveraging on the management and support from the Group, the Company further improved the risk prevention and control and supervision on asset quality of Minsheng rural banks to raise their refined management level in pursuit of their sound and sustainable growth.

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(5) Structured entities consolidated to the financial statements of the Group

Structured entities consolidated to the financial statements of the Group include certain asset management plans. The Group shall determine whether it has controlling right over these structured entities based on its role as the manager of such plans and shall determine whether it is the major responsible party or an agent based on various aspects such as its authorized scope of decision, the power and rights of other parties to the asset management plans, and the risk exposure of the variable income. As the Group exercises the power of decision-making as the major responsible party of these structured entities and the share of income of the Group in the total investment income of such plans is relatively large, these asset management plans are consolidated to the financial statements of the Group although the Group did not hold any interests in these entities.

As at 30 June 2017, the total equity of the asset management plans under the management of and consolidated to the financial statements of the Group amounted to RMB54 million (31 December 2016: RMB3,835 million). No individual asset management plan had material impact on the financial position of the Group.

(6) Management of consolidated financial statements

In the first half of 2017, to comply with the regulatory requirements of consolidated financial statements, the Company maintained the specific management of consolidated financial statements, and implemented special rectification work for the smooth operation of the Group.

Following the general principle in respect of the management of consolidated financial statements, the Group carried out various tasks regarding the summarization and submission of detailed reports to regulators, supervision and evaluation, reporting system of major events, operation and maintenance of the IT systems and regulatory researches relevant to consolidated financial statements. As a result, the working mechanism became more standardized. In compliance with regulatory requirements, the Company examined the management of consolidated financial statements in an effort to rectify market disorders in the banking industry, so as to ensure that the management of consolidated financial statements complied with the legal requirements in all aspects. All departments taking part in the management of consolidated financial statement performed their duties and responsibilities in respect of the business lines and subsidiary units within their authorities, which further enhanced the effectiveness and expanded the coverage of the management of consolidated financial statements.

Discussion and Analysis on Business Operation

X. Risk Management

The principle of the Company's risk management is "Creating Value by Managing Risks". It focuses on the coordinated development of quality, profit and scale. The objective of the risk management of the Company is to enhance its risk management by actively implementing the Basel III and establishing a comprehensive risk management system.

The Risk Management & Assets Monitoring and Control Department, Legal Affairs and Compliance Department, Assets Operation and Disposal Department, Corporate Business Risk Management Department, Retail Business Risk Management Department and Financial Markets Risk Management Department have been established for risk management. The Risk Management & Assets Monitoring and Control Department is responsible for the management of all the risks of the Company. The Legal Affairs and Compliance Department is responsible for the management of compliance risk, legal risk, operational risk and the establishment of internal control system of the Company. The Assets Operation and Disposal Department is responsible for management of corporate non-performing assets of the Company. The Corporate Business Risk Management Department, Retail Business Risk Management Department and Financial Markets Risk Management Department are responsible for the comprehensive risk management of their business sectors, respectively.

(I) Credit risk

Credit risk is the risk that a borrower or a counterparty defaults in making repayments in a timely manner in full amount for whatever reasons. Under the coordination of the Risk Management Committee of the Company, a platform consisting of risk management strategies, portfolio management and risk quantification and measurement tools have been established for the strategic implementation and balance of risks, capital and returns and for the application of results of rules of the Basel III. The risk management system covers the whole process including pre-approval investigation, approval review, post disbursement management, collection and preservation of assets. Credit risks of on- and off-balance sheet items and non-credit business are also strictly controlled. Under the new economic circumstances, the Company will strive to strengthen the initiative and foresight of credit risk management in line with the changes in the macro-economic and financial situation.

During the Reporting Period, in face of increasing risks, the Company proactively took a series of measures to ensure the sustainable and prudent development of all business lines, such as tightening the standards for credit approval, facilitating business restructuring, promoting application of risk measurement tools, innovating the risk management approaches and strengthening asset quality management.

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Firstly, the Company carried out strategic transformation and structural adjustment. The Company formulated and issued the 2017 General Risk Policy and Portfolio Management Guidelines (《2017年度基本風險政策暨組合管理指引》), which restated the risk policy and portfolio management direction for all business departments and operating units regarding all types of investment and financing businesses in terms of the industries, regions, customers, products and other aspects. According to the policy of “separate-sheet management between the Head Office and branches”, the Company has established a customized management objective of “One bank, one policy” with clear guidelines and quantitative indicators, which has refined the management systems of monitoring, reporting, adjustment and appraisal, and facilitated the effective reform of the business structure by all operating units. Secondly, the Company further optimized the structure of corporate banking business by increasing the proportion of quality customers with strong guarantee as well as customers less sensitive to the economic cycles. The Company upgraded the digitalized operation of its business and applied innovative technologies, such as big data, artificial intelligence and image recognition, to the decision-making of credit approval for corporate banking business to enhance its efficiency, which facilitated the integration of internal and external platforms and data of the Bank and fully optimized the effectiveness of the business process, operating procedures and decision-making approach of the credit approval for corporate banking business. The risk warning system was also refined with the application of big data. The Company introduced a new management model for risk warning to facilitate the coordination between the Head Office and branches, which optimized the philosophy, regime, organization and procedures of risk warning management so as to support the Company’s business growth. Thirdly, the Company continued to optimize the structure of its retail business. Adhering to the principles of “quality customers and collaterals”, the Company increased the proportion of quality customers and secured loans. In order to better satisfy customers’ needs, the Company implemented classified and differentiated management in terms of loan pricing, approval for collaterals, collateral ratio and application process. Application of data and information throughout the whole risk management process was improved to upgrade its digital level, and the overall risk management system was consolidated with refined risk model and tools to facilitate the scientific and reasonable decision-making procedures. In addition, business processing procedures were optimized through standardized operational model, which has improved the management efficiency and prevented operational risks of the Company. Fourthly, in respect of the financial markets business, the Company strictly complied with the regulatory requirements to serve the real economy and conducted thorough risk control on the cross-selling of all types of financial products under the principle of overall risk control in all aspects involved and at all levels throughout the process. The Company intensified the management in bonds investment by strengthening the inspection on internal control and restricted the leverage ratio of investment. List-based special supervision was conducted on major bonds and specific types of debt securities. The Company also strengthened the risk control of businesses in the capital markets. The Company launched a system to monitor the concentration of stocks, which has further expanded the coverage and improved the effectiveness of risk management, and enhanced the business approval efficiency as well as the market competitiveness of products.

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Fifthly, the Company continued to enhance asset quality and launched the “Sword Campaign (亮劍行動)” in respect of the asset quality management throughout the Bank. The Company reinforced its management system and policy with more innovative supporting and coordinating mechanisms to refine the routine asset quality management effectively. In order to improve the internal momentum of asset quality management at all levels, the Company imposed policies with emphasis on the execution, consistent implementation of different measures and integration of responsibilities, authorities and rights of the management. Through the dual efforts in the liquidation and settlement of non-performing loans and the control in the increase of non-performing loans, the Company managed to maintain stable asset quality as a whole. Sixthly, risk measurement tools were introduced and upgraded. Since the adoption of the Basel III, the Company vigorously promoted the application of internal rating results to the whole process of risk management. Various aspects such as credit access, risk authorization, quota setting and risk report have been integrated with such results. Greater efforts have been made to apply the results of internal rating to other aspects including capital allocation, allowances for impaired loans, loan pricing and performance assessment.

(II) Market risk

Market risk refers to the risk of adverse changes in market prices (interest rates, exchange rates, stock prices and commodity prices), inflicting losses in on- and off-balance sheet businesses of commercial banks. The Company managed its interest rate risk, exchange rate risk, stock risk and commodity risk in accordance with the regulatory requirements and the rules of the Basel III. The Company further improved its market risk management system in the areas of quota management, measurement, middle office supervision, stress test and contingency management to cope with the fast-changing and innovative banking industry.

During the Reporting Period, against the backdrop of increasing uncertainties in global political and economic conditions and prolonged market fluctuation, the Company enhanced the awareness of overall risk planning and initiative risk management and steadily managed various types of market risks based on a comprehensive market risk management system. Firstly, confronted with greater currency market fluctuations, the Company reasonably controlled the foreign currency exposure, kept track of the limits of currency risk, explored the market opportunities and strengthened the management under the currency fluctuation, so as to offer greater flexibility for foreign currency exposure of trade accounts. Secondly, the Company continued to improve the management on trading book risks. Through wider application of internal modeling of market risk management in the core areas including daily management, risk reports, stress tests and capital measurements, the middle-office risk management system was integrated into the front office business. Thirdly, the Company solidified the fundamental principles of risk management and formulated comprehensive planning in respect of the three core elements of market risk management, namely the market trend, volatility and stress, so as to control potential loss arising from stressful scenarios under tolerable

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risk level. Fourthly, coordination on the market risk management was further improved. By refining the coordination system between the market risk management and the management of assets and liabilities, the Company increased the support of the strategies and policies of market risks for the allocation of assets and liabilities and business planning.

(III) Liquidity risk

Liquidity risk refers to the risk of a commercial bank which is unable to obtain sufficient funds in a timely manner or at reasonable costs to cope with increase in assets or fulfill debt obligations despite its solvent position. The targets of the liquidity risk management of the Company during the Reporting Period were to improve the management and measurement of liquidity risk and to strengthen the abilities to identify, monitor and measure liquidity risk, and refine control and management so as to achieve optimal balance among liquidity, safety and profitability pursuant to the development strategies of the Company. During the Reporting Period, in face of the regulatory requirements, increasingly complicated market environment, accelerated financial disintermediation and the liberalization of interest rate, the Company was under immense pressure of liquidity risk management. At the beginning of the Reporting Period, the Company determined to maintain liquidity risk tolerance at a relatively stable level to ensure sufficient liquidity for the development of its businesses and fulfill regulatory requirements. While ensuring sufficient realizable assets of high liquidity under the pressure, it also limited risk exposure at a tolerable risk level for enhancing capital utilization efficiency.

During the Reporting Period, the Company adopted various policies concerning liquidity risk management. It enhanced the measurement and monitoring levels and refined the full-covering management system of liquidity risk. In addition to the restructuring of assets and liabilities and allocation of assets, the Company thoroughly studied the changes in gaps of future cash flows of capital business and monitored and managed interbank business as well as deposits and loans business in different approaches, in particular during sensitive periods, so as to be well-prepared for the risk hedging or risk overlay resulting from the fluctuation in capital business and deposits and loans business. The Company also refined liquidity risk indicators for accurate measurement of liquidity risk. The Company closely monitored the changes in monetary policies and put effort in analyzing interest rate in the market. The Company also proactively participated in the operation of various monetary tools in open market launched by the central bank. In addition, the Company enhanced the stress testing on liquidity and refined its risk warning and contingency plan. The Company paid close attention to changes in policies and markets and its own major operation policies, including the effect on liquidity of the changes in asset and liability management policies in addition to carrying out existing risk management policies. The Company also evaluated liquidity risk periodically and made timely adjustment when necessary.

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(IV) Operational risk

Operational risk refers to the risk of loss due to deficient and flawed internal procedures, personnel and IT system or external events. The operational risk of the Company mainly comprises internal and external fraud, employment system, safety of working places, and events related to customers, products and operation, damages of tangible assets and interruption of business.

During the Reporting Period, in order to improve operational risk management and ensure business continuity, the Company implemented and continued to improve relevant measures. Firstly, the Company enhanced the effectiveness of the three major operational risk management tools, including the coordination of self-assessment of operational risk and control, monitoring and reporting of major risk indicators and improvement in the collection of lost data for operational risk. Secondly, the Company exerted efforts in enhancing management of business continuity. The Company acknowledged the relationship between its major businesses and the information systems, and further refined the contingency plans for major businesses and strengthened the emergency drills at the Head Office and branches so as to improve the quality of such drills. Thirdly, the Company revised the management system of outsourced business risks, streamlined the approval process for outsourced projects, optimized the risk evaluation models for outsourced projects and improved accuracy of evaluation by adopting the evaluation method of categorization and quantification. In addition, the Company continued to pay attention to the special off-site risk management and control through information technology for outsourced projects. It carried out evaluation and inspection at different levels to ensure the effective management over outsourced business risks. Fourthly, the Company optimized the operational risk management system with refined functions and interface to enhance its management.

In the meantime, the Company continued to strengthen the inspection of compliance and internal control against operational risks to facilitate problem rectification with emphasis on risk control in key areas. Firstly, the Company issued the 2017 Inspection Plan of the Head Office for Compliance and Internal Control (《總行2017年度合規內控檢查計劃》), which stated the key aspects for inspection by the Head Office with clear standards and implementation requirements in order to coordinate and manage the overall inspection of compliance and internal control of the Bank. Secondly, the Company conducted risk investigations and special inspections over the trading market, foreign exchange, corporate credit, bond issuance, custody and sales of wealth management products in order to strengthen risk control of major aspects. Thirdly, the Company fully complied with the regulatory requirements to rectify behaviours in violation of the laws, rules and regulations, and carried out special investigations regarding “banking industry disorders” as well as special inspection projects of “two enhancements and two controls” with double checking system for rectification and accountability. Under the guidance and supervision of the Head Office, each of the respective departments performed its duties to rectify specific problems and improve the internal control systems in an attempt to facilitate the accountability and warning against irregularities and strengthen trainings for the awareness of compliance. Significant results have been achieved.

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(V) Country risk

Country risk refers to the risk of borrower or debtor in a certain country or region failing or unwilling to repay debts to financial institutions in the banking industry, or the financial institutions in the banking industry in a country or region suffering from losses or incurring other losses due to economic, political and social changes and incidents in such country or region.

During the Reporting Period, the Company continued to strengthen the identification and management of country risk. Firstly, the Company set up grades and limits for country risk to enhance the data statistics and analysis of country risk exposure to improve the operating system, which has thus strengthened the level and ability of country risk management. Secondly, the Company paid close attention to and timely reported major country risk incidents, and promptly adopted remedial measures to prevent the challenge from overseas financial risks. Thirdly, the Company strictly implemented measures related to country risk management of the Company when conducting overseas debt business, such as fund lending, bill financing and derivative transaction, with overseas entities.

(VI) Interest rate risk in banking books

Interest rate risk in banking books refers to the adverse changes in the level of interest rate, term structure and other factors which lead to loss on overall revenue and the economic value of banking books, primarily caused by the mismatch of the maturity profiles and benchmark rates between financial positions and instruments of the banking books as well as embedded options. It can be classified as re-pricing risk, yield curve risk, benchmark risk and option risk according to the risk categories.

During the Reporting Period, the Company continued to strengthen the management of interest rate risk in banking books. Firstly, through the management system of assets and liabilities, the Company regularly monitored the re-pricing levels of financial positions and instruments re-determined upon each maturity and adopted various techniques in measuring and analyzing the interest rate risk in banking books, such as re-pricing gap analysis, duration analysis, scenario analysis and stress testing. Secondly, based on the factors giving rise to interest rate risk in banking books, the Company formulated proposals and implemented measures for management. Thirdly, capitalizing on the implementation of the Standards for Interest Rate Risk in the Banking Book (《銀行賬戶利率風險監管標準》) of the Basel Committee, the Company refined its risk management framework so as to improve the management of interest rate risk in banking books.

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(VII) Reputation risk

Reputation risk refers to the risk of negative evaluation of commercial banks and the overall banking industry by relevant interested parties, the media and the society as a result of the poor operation or management and other actions in breach of the national laws and regulations, social ethical standards or applicable internal rules by the commercial banks or their staff, or due to other external customers or events.

During the Reporting Period, as reputation risk management was prioritized as one of the important works to ensure its normal business operation and create a desirable public opinion environment, the Company fully implemented the Guidelines for the Management of Reputation Risk of Commercial Banks (《商業銀行聲譽風險管理指引》) and the Administrative Measures on Reputation Risk of China Minsheng Bank (《中國民生銀行聲譽風險管理辦法》). The Company continued to carry out external promotion, and establish and improve the synergies between the internal reputation risk management mechanism and the construction of the risk linkage system. First, the Mechanism for Minimizing Reputation Risk of China Minsheng Bank (《中國民生銀行聲譽風險處置機制》) was modified, marking the Company's efforts to optimize the reputational risk management system and mechanism for four consecutive years. Second, through investigation and daily monitoring of reputation risk, the Company analyzed various exposed risk information. Risk alerts on the source and trend were given. The Company also improved the liaisons among departments of the Head Office, institutions at all levels and external units. Third, the Company actively conducted re-evaluations with an aim to improve risk control procedures during daily management. Fourth, the confidence towards stable growth as well as the ability to control and settle risks of the Company and the banking industry as a whole were duly publicized and promoted, and the objectives of the Company to serve the real economy, facilitate the economic transformation of the PRC and support the "Belt and Road Initiative" were emphasized.

(VIII) Information technology risk

Information technology risk refers to the operational, legal, reputation and other risks faced by commercial banks as a result of natural factors, human factors, technical loopholes and management deficiencies in the course of using information technology.

During the Reporting Period, in accordance with the Guidelines for the Management of Information Technology Risk of Commercial Banks (《商業銀行信息科技風險管理指引》), the Company conducted comprehensive information technology risk management in areas such as governance of information technology, development and maintenance of information systems, information security and audit. Information technology risk management was continuously improved to promote business development. Firstly, the Three-Year Development Plan on Information

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Technology (《信息科技三年發展計劃》) was formulated to clarify the middle-to-long term development strategies and implementation plans as well as the reallocation of resources in order to optimize the governance structure of information technology. Second, information technology risk management was enhanced by establishing information technology risk indicator system. In compliance with the regulatory rating requirements on information technology, the Company enhanced the ability in detecting and rectifying problems and monitoring, identifying and handling of information technology risk. Third, protection of network border security was strengthened. A monitoring, alert and reporting system for network security was established, whereby regular network penetration tests and simulated attack drills were carried out to fulfill the safety control requirements on operational network and office network.

(IX) Anti-money laundering

Adhering to the risk-oriented corporate governance philosophy, the Company maintained the “two externals and three internals (兩個對外，三個對內)” management approaches pursuant to the No. 3 Announcement of the PBOC and relevant supplementary policies with an aim to optimize the internal control system for anti-money laundering in full compliance with the regulatory requirements.

During the Reporting Period, the Company consistently improved the anti-money laundering measures. First, the Company duly fulfilled its regulatory obligations in the effective implementation and promotion of regulatory policies. The Company actively participated in the annual assessments held by the regulators, supported surveys and researches and provided feedbacks. Second, the internal control system in respect of anti-money laundering was comprehensively amended and improved. The Group established a management system for money laundering risk evaluation of products and businesses as well as due diligence and risk evaluation of correspondent banks. While continuously providing more specific standards on professional ethics, the Company also unified the internal control standards over anti-money laundering at the group level. Third, risk control over major aspects was reinforced, such as sanctions, multi-level marketing, fraud and abnormal overseas withdrawals with debit cards. Fourth, inspections against risks of money laundering by staff as well as anti-money laundering promotions and trainings were conducted to incorporate the anti-money laundering and compliance awareness into the corporate culture. As such, the understanding of staff and customers of the Company on anti-money laundering laws, regulations and new policies were generally enhanced.

During the Reporting Period, there were no domestic and overseas institutions and staff of the Company found to have participated in or be involved in any money laundering and terrorist financing activities.

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XI. Prospects and Measures

(I) Competition and development of the banking industry

In the second half of 2017, the global economy will hopefully continue to return to the recovery track in spite of the possible threat from downward pressure. First, the sustainability of economic recovery is still under observation. Given the uncertainties in the subsequent policies of the United States, upcoming elections of major member countries of the Euro Zone, struggling of Japan's economy in the "liquidity trap" and apparent divergence among emerging economies, the economic, financial and trading landscapes across the world are still under in-depth adjustments. In the event that the effectiveness of policies adopted by the major developed economies and their recovery progress fall short of expectations, risk-based pricing in the market will be adjusted rapidly, which will in turn affect the global economic growth. Second, if the major central banks cease the quantitative easing measures or shrink the balance sheets, the long-term rates may jump up while the liquidity margin ratio will drop, which will trigger volatility in the global financial market and, in turn, create heavier pressure on emerging economies. Third, the risks in relation to populism remain the major concern in spite of its cooling down. Intensified protectionism across the globe will put a brake on and even reverse the policy coordination as well as the economic globalization among different countries, which will probably drag down the global productivity and economic growth rate and lead to more severe turbulence in the financial market. Fourth, outbreak of geopolitical conflicts, emerging of terrorism as well as the increasing risks and uncertainties in other aspects will have significant impacts on economic and financial conditions.

In China, although there is clear development path for the domestic economy in the mid-to-long run, the short-term condition remains uncertain. As the economic restructuring deepens, China has entered a challenging stage with extraordinary obstacles and difficulties, and the macro-economy is expected to remain stagnant under L-shaped cycle for a certain period of time. Nonetheless, it is an inevitable process before the national economy upgrades to a more superior level with highly efficient cooperation among industries and more reasonable structure. In general, this phase has the following features: The domestic economy will remain sluggish for a certain period of time, and will be lack of growth momentum in the short term. As consumption growth becomes the major driver of the economic development, consumer finance will see faster development. The supply-side structural reform will continue to be deepened and expanded. Regional economies will continue to develop at varied paces with more differentiated structural characteristics. Currently, the investments in real estate and infrastructure as well as the replenishment in inventories are the main engines of the economic recovery in China, and recent improvement in operating performance is substantially observed in the up-stream and mid-stream industries. The official PMI data shows that expansion of large enterprises has been continuously accelerated while the growth of small-sized enterprises has slowed down. The domestic endogenous factors to foster an economic growth is yet to be fueled, and the existing structural conflict remains obvious. In the second half of the year, as affected

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by factors including the policies to cut overcapacity, increasing interest rates and new regulations on the real estate industry, recovery progress of the manufacturing industry as well as the growth of the investments in the private sector and real estate is subject to uncertainties, which may also create downward pressure on the economic growth. In addition, the accumulated debts, high leverage ratio, surging asset prices, increasing financial risks, stricter regulations on financial-related industries, huge fiscal deficits and tight liquidity have imposed significant pressures and challenges on the path to pursue steady growth and structural adjustment.

As affected by external factors, in the second half of 2017, the banking industry will also face new opportunities and challenges. In respect of opportunities, firstly, the restructuring of the national economy will generate greater demands, hence creating new business opportunities for the banking industry. Under the backdrop of cutting overcapacity, reducing excess inventory and deleveraging, traditional industries continue to transform and upgrade with more frequent mergers and acquisitions across industries, bringing more extensive opportunities for commercial banks in the provision of financing services for mergers and acquisitions and investment banking services. Meanwhile, as new industries, technologies, business trends and operational models will continuously emerge during the course of industrial transformation and upgrade, demands for customized financial products become stronger, and innovative financial services, such as technological finance, investment-loan linkage, industry funds and supply-chain finance, are witnessing rapid growth. Attributable to the new opportunities from the development of green finance, there will be urgent needs for innovation of financing for energy efficiency operations, financing for carbon-emission rights, green credit and asset securitization. Secondly, there will be numerous opportunities in the consumer finance market as new consumption highlights emerge. Currently, with consumption upgrade supported by policies, change in residents' consumption preference, financial innovation facilitated by information technology and generally low leverage ratio of residents, China has exhibited huge development potential for consumer finance. Tourism, healthcare, education, pension, entertainment and online shopping will become new consumption highlights, which will certainly create demand for credit and other comprehensive financial services. Thirdly, the strategic development plan of China will create opportunities for business development. Driven by the continuous advancement of the three major national strategies, namely the "Belt and Road Initiative", coordinated development of the Beijing-Tianjin-Hebei region and development of Yangtze River Economic Zone, development paces among Eastern China, Central China and Western China prone to be more balanced. The establishments of Xiong'an New Area, and the world-class metropolitan agglomerations of Guangdong-Hong Kong-Macao Greater Bay Area are expected to create demands for infrastructure investment and financing, resulting in enormous business opportunities for commercial banks. Fourthly, the promotion of mixed business operation and coordinated regulation will offer greater room for diversified and sustainable development of commercial banks. The financial market develops rapidly with the launch of the Shanghai-Hong Kong Stock Connect ("滬港通"), Shenzhen-Hong Kong Stock Connect ("深港通"), Bond

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Connect (“債券通”), investment-loan linkage and debt-to-equity conversion, facilitating the growth and expansion of non-interest income of commercial banks. In addition, as coordinated financial regulation further develops, the central government will launch a regulatory system that is more suitable to the finance industry, which will create more space for business innovation and growth.

In respect of challenges, firstly, liquidity management of banks will become more difficult. Under the combined influences of domestic and foreign policies, including Donald Trump’s policies, the FED’s interest rate hikes, appreciation of US dollar, the shrinkage of balance sheets and the “prudent and neutral” monetary policies by major central banks, liquidity contraction is likely to arise in the domestic banking system of China. Some domestic commercial banks may even suffer from liquidity shortage, posing adverse effect on liquidity management. Secondly, risk factors of export-oriented economies will increase. Trade conflicts and exchange rate disputes directly result in higher operational risks in import-export enterprises. Credit risks exposed to commercial banks in China associated with such enterprises may erupt intensively, which increases the obstacles for banks in “Going Global”. Thirdly, financial regulation will put unprecedented pressure on compliance of banks. Off-balance sheet wealth management business of commercial banks has been included in the regulatory framework of the Macro Prudential Assessment (“MPA”). As regulatory authorities have further strengthened cross-border capital flow management, anti-money laundering supervision and management of cross-financial risks, costs relating to incompliance in the banking industry have increased and arbitrage opportunities have reduced. Fourthly, the management of assets and liabilities will face severe challenges. The continued pressure from the shortage of quality assets and increasing debt costs require higher profitability and professional and refined management of the banks. Fifthly, the loosened market access will lead to growing competition within or beyond the border of banking industry. The rapid establishment and operation of non-state-owned banks and further integration of Internet and finance will significantly change the traditional mode of financial business. As a result, the banking industry should pick up speed to transform its development strategies and operation patterns so as to rebuild customer relationships and service models.

As the domestic and international economies are undergoing in-depth restructuring, the banking industry in China has also entered a critical period of reform with business model shifting from heavy assets to light assets, from horizontal expansion to organic growth and from single business of financing to the model of “finance + intelligence”. In the future, the operation of the banking industry will be further differentiated and banks with precise strategic foresight, outstanding innovation, improved comprehensive network, sound liability-gearing assets, strong risk control abilities and sustainable and healthy operation will stand out from the competition.

Discussion and Analysis on Business Operation

(II) Development strategies of the Company

To cope with changes in external conditions and internal development needs, the Company has formulated the Medium to Long-term Development Strategies of China Minsheng Bank for 2016–2025 (《中國民生銀行中長期發展戰略 (2016–2025)》) and the Development Plan of China Minsheng Bank for 2017–2019 (《中國民生銀行2017–2019年發展規劃》), and has facilitated the implementation of the Phoenix Project. In accordance with its development strategies and arrangement, the Company is committed to becoming a “distinctive and globally competitive platform-based modern financial service group with cross-sector and win-win vision and intelligence”. Moreover, it also strives to become an iconic bank with core competitiveness and sustainable prospect in the financial market of China. Adhering to its development philosophies of “becoming an innovative bank with global network pursuing excellence and win-win results”, the Company will develop a new four-wheel-driven business model of capital, intelligence, commerce and Internet, in order to create a brand new Minsheng Bank featuring digitalization, professionalization, integration and globalization and having enduring appeal in the industry.

With the implementation of new strategies, new plans and the Phoenix Project, taking asset and liability management as the leading role, the Company will endeavour to promote coordination of its three major segments including corporate banking, retail banking and financial markets business as well as synergy between the Company and its subsidiaries, and establishing strategic comprehensive asset and liability management model and lead the stable growth of the whole Bank. The corporate banking business will be strengthened by optimizing the customer base and classified customer management, optimizing industrial distribution and geographical layout and seizing business opportunities in investment banking and transaction banking so as to improve the professionalism of the Company. Furthermore, the Company will expand its retail banking business by building up a collaborative development mechanism and creating a new pan-retail system. The Company will foster a financial ecosystem to boost the channel efficiency. In addition, great effort will be made to optimize the financial markets business by establishing a first-class cross-market, cross-industry and cross-border platform that provides integrated services for financial markets in order to accelerate the transformation into an integrated bank with high efficiency and low costs. In order to promote the Internet finance business, the Company will establish “E-Minsheng”, develop “I-Minsheng”, promote “Minsheng +”, put forward the implementation of Internet strategies, accelerate digitalization, develop the Minsheng Internet finance ecological circle which combines traditional vertical businesses with emerging horizontal businesses and become a “future bank (未來的銀行)”. Moreover, the Company will promote an integrated operation under a group structure with centralized development framework. It aims to develop into a banking group with full set of licences covering trust, insurance, securities, asset management and investment banking businesses and create a group-based comprehensive financial service platform with deeply rooted “One Minsheng (一個民生)” strategy. Meanwhile, in accordance with the strategy of following market trend, the Company will endeavour to expand its global network in terms of institutions, businesses and talents

Discussion and Analysis on Business Operation

to enhance global competitiveness. Adhering to its core mission, the Company will continue to focus on serving non-state-owned enterprises with featured and differentiated services in order to build its unique competitive advantages. Branches with distinctive characteristics will also be established to consolidate its core strengths in the regional market. Intelligent financing services will be developed as new and unique core competitiveness. Risk management will be implemented prudently to improve the comprehensive risk management system. The Company will strengthen the disposal of non-performing assets and further optimize asset structure to defend the risk bottom line.

In the future, to adapt to, seize opportunities from and lead the “New Normal”, the Company will always adhere to its major principles, formulate strategic plans, take actions and work according to the actual situations. In pursuit of serving the real economy, the Company will focus on enhancing quality and efficiency of business development. The Company will keep abreast of economic and financial situations when accelerating its strategic transformation and business restructuring. Emphasis will be placed on asset quality and risk management. The Company will also proactively develop new businesses, strengthen fundamental management and implement reform and innovation to foster an integrated corporate culture under its new blueprint of sustainable and stable development.

(III) Potential risks

In recent years, the domestic and global economies have encountered various predictable and unpredictable challenges. The conventional business mode of commercial banks is experiencing rapid and unprecedented changes due to factors including mounting pressure on economic growth, accelerated liberalization of interest rate, rise of Internet finance, progressively loosened monetary policy, volatility in capital market and increasingly stringent regulatory environment. As illustrated by worldwide experience, after the liberalization of interest rate, banks will experience a hard time with narrowed interest margin and profit decline. Meanwhile, the downward trend of macro-economy will affect the asset quality of banks and further increase provision pressures, thus creating challenges for both the operation profitability and asset quality of banks.

Facing the in-depth transformation of the financial environment, the Company will proactively cope with the economic downward pressure, continuously strengthen its construction of risk culture, continue to improve comprehensive risk management and strictly safeguard asset quality with joint efforts throughout the Bank. With the Phoenix Project, the Company will navigate the challenges posed by the liberalization of interest rate, seize new market opportunities brought about by the “New Normal” and accelerate the transformation of business and management model.

Changes in Share Capital and Information on Shareholders

I. Changes in Ordinary Shares

(Unit: Share)

	31 December 2016		Changes over the Reporting Period (+,-)	30 June 2017	
	Number of shares	Percentage (%)	Number of shares	Number of shares	Percentage (%)
I. Shares subject to restriction on sales	—	—	—	—	—
1. State-owned shares	—	—	—	—	—
2. State-owned legal person shares	—	—	—	—	—
3. Other domestic shares	—	—	—	—	—
Of which:					
Held by domestic legal person	—	—	—	—	—
Held by domestic natural person	—	—	—	—	—
4. Foreign investor shares	—	—	—	—	—
Of which:	—	—	—	—	—
Held by overseas legal person	—	—	—	—	—
Held by overseas natural person	—	—	—	—	—
II. Shares not subject to restriction on sales	36,485,348,752	100.00	—	36,485,348,752	100.00
1. Ordinary shares in RMB	29,551,769,344	81.00	—	29,551,769,344	81.00
2. Domestic listed foreign invested shares	—	—	—	—	—
3. Overseas listed foreign invested shares	6,933,579,408	19.00	—	6,933,579,408	19.00
4. Others	—	—	—	—	—
III. Total number of ordinary shares	36,485,348,752	100.00	—	36,485,348,752	100.00

Changes in Share Capital and Information on Shareholders

II. Top Ten Shareholders of the Company and Their Shareholdings:

(Unit: Share)

Total number of ordinary shareholders as at the end of the Reporting Period								407,983
Particulars of shareholdings of the top ten shareholders								
Name of shareholder	Type of shareholder	Shareholdings percentage (%)	Number of shares held as at the end of the Reporting Period	Changes over the Reporting Period	Number of shares subject to restriction on sales held	Shares pledged or locked-up		
						Status	Number	
HKSCC Nominees Limited	Others	18.91	6,898,590,011	975,896	—	Unknown	—	
Anbang Life Insurance Inc. — Steady Investment Portfolio	Domestic non-state-owned legal person	6.49	2,369,416,768	—	—	Nil	—	
China Securities Finance Corporation Limited	Domestic non-state-owned legal person	4.99	1,820,370,063	340,187,053	—	Nil	—	
China Oceanwide Holdings Group Co., Ltd.	Domestic non-state-owned legal person	4.61	1,682,652,182	—	—	Pledged	1,679,652,182	
Anbang Property Insurance Inc. — Traditional products	Domestic non-state-owned legal person	4.56	1,665,225,632	—	—	Nil	—	
Anbang Insurance Group Co., Ltd. — Traditional Insurance Products	Domestic non-state-owned legal person	4.49	1,639,344,938	—	—	Nil	—	
New Hope Liuhe Investment Co., Ltd.	Domestic non-state-owned legal person	4.18	1,523,606,135	—	—	Pledged	84,440,000	
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	3.15	1,149,732,989	—	—	Pledged	1,149,732,989	
China Shipowners Mutual Assurance Association	Domestic non-state-owned legal person	2.98	1,086,917,406	—	—	Pledged	110,000,000	
Orient Group Incorporation	Domestic non-state-owned legal person	2.92	1,066,764,269	—	—	Pledged	896,566,240	

Changes in Share Capital and Information on Shareholders

Shareholdings of top ten holders of shares not subject to restriction on sales		
Name of shareholders	Number of shares not subject to restriction on sales held	Class of shares
HKSCC Nominees Limited	6,898,590,011	Overseas listed foreign invested shares (H shares)
Anbang Life Insurance Inc. — Steady Investment Portfolio	2,369,416,768	Ordinary shares denominated in RMB
China Securities Finance Corporation Limited	1,820,370,063	Ordinary shares denominated in RMB
China Oceanwide Holdings Group Co., Ltd.	1,682,652,182	Ordinary shares denominated in RMB
Anbang Property Insurance Inc. — Traditional Products	1,665,225,632	Ordinary shares denominated in RMB
Anbang Insurance Group Co., Ltd. — Traditional Insurance Products	1,639,344,938	Ordinary shares denominated in RMB
New Hope Liuhe Investment Co., Ltd.	1,523,606,135	Ordinary shares denominated in RMB
Shanghai Giant Lifetech Co., Ltd.	1,149,732,989	Ordinary shares denominated in RMB
China Shipowners Mutual Assurance Association	1,086,917,406	Ordinary shares denominated in RMB
Orient Group Incorporation	1,066,764,269	Ordinary shares denominated in RMB
Statement on the related relationship or concerted actions among the aforesaid shareholders	Anbang Insurance Group Co., Ltd. is the controlling shareholder of Anbang Life Insurance Inc. and Anbang Property Insurance Inc. The Company is not aware of any related relationship among other shareholders save as mentioned above.	

- Notes: 1. The number of shares held by holders of H shares was recorded in the Register of Members as kept by the H Share Registrar of the Company.
2. HKSCC Nominees Limited acted as an agent to represent the total number of H shares of the Company held by all institutional and individual investors that were registered in their accounts with the Company as at 30 June 2017.

Changes in Share Capital and Information on Shareholders

III. Substantial Shareholders' and Other Persons' Interests or Short Positions in the Shares and Underlying Shares of the Company under Hong Kong Laws and Regulations

As at 30 June 2017, the following persons (other than the Directors, Supervisors and chief executives of the Company) had the following interests or 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 and as the Company is aware of:

Name of substantial shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant shares in issue (%)	Percentage of all the issued ordinary shares (%)
Anbang Insurance Group Co., Ltd.	A	Long	Beneficial Owner	1,673,502,001			
		Long	Interest held by the corporation(s) controlled by this substantial shareholder	4,453,401,906			
				6,126,903,907	1	20.73	16.79
	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	381,608,500*	2 and 20	5.50	1.05
Orient Group Incorporation	A	Long	Party to the Acting in Concert Agreement	2,095,080,467	3	7.09	5.74
Huaxia Life Insurance Co., Ltd.	A	Long	Party to the Acting in Concert Agreement	2,095,080,467	3	7.09	5.74
China Oceanwide Holdings Group Co., Ltd.	A	Long	Beneficial Owner	1,682,652,182	4 and 5	5.69	4.61
Oceanwide Group Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	1,682,652,182	4 and 5	5.69	4.61
Tohigh Holdings Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	1,682,652,182	4 and 5	5.69	4.61
New Hope Group Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	1,608,929,324*	6 and 9	5.44	4.41

Changes in Share Capital and Information on Shareholders

Name of substantial shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant shares in issue (%)	Percentage of all the issued ordinary shares (%)
New Hope Liuhe Co., Ltd.	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	1,523,606,135*	6	5.16	4.18
New Hope Liuhe Investment Co., Ltd.	A	Long	Beneficial Owner	1,523,606,135*	6	5.16	4.18
Li Wei	A	Long	Interest held by the corporation(s) controlled by the spouse of this substantial shareholder	1,608,929,324*	7 and 9	5.44	4.41
Liu Chang	A	Long	Interest held by the corporation(s) controlled by this substantial shareholder	1,608,929,324*	8 and 9	5.44	4.41
Guotai Junan International Holdings Limited	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	986,003,240	10 and 11	14.22	2.70
		Short	Interest held by the corporation(s) controlled by this substantial shareholder	986,003,211	10 and 11	14.22	2.70
Guotai Junan Securities Co., Ltd.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	986,003,240	10 and 11	14.22	2.70
		Short	Interest held by the corporation(s) controlled by this substantial shareholder	986,003,211	10 and 11	14.22	2.70
Shanghai International Group Co., Ltd.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	986,003,240	10 and 11	14.22	2.70
		Short	Interest held by the corporation(s) controlled by this substantial shareholder	986,003,211	10 and 11	14.22	2.70
Guo Guangchang	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	808,612,400	12 and 13	11.66	2.22

Changes in Share Capital and Information on Shareholders

Name of substantial shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant shares in issue (%)	Percentage of all the issued ordinary shares (%)
Fosun International Limited	H	Long	Beneficial Owner	695,179,800			
		Long	Interest held by the corporation(s) controlled by this substantial shareholder	113,432,600			
				808,612,400	12 and 13	11.66	2.22
Fosun International Holdings Ltd.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	808,612,400	12 and 13	11.66	2.22
Shi Jing	H	Long	Person who set up a discretionary trust	665,020,111	14 and 15	9.59	1.82
Abhaya Limited	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	665,020,111	14 and 15	9.59	1.82
Wickhams Cay Trust Company Limited	H	Long	Trustee	665,020,111	14 and 15	9.59	1.82
Union Sky Holding Group Limited	H	Long	Beneficial Owner	7,160,000			
		Long	Interest held by the corporation(s) controlled by this substantial shareholder	594,584,711			
				601,744,711	14	8.68	1.65
JH International Investment Company Limited	H	Long	Beneficial Owner	594,584,711	14	8.58	1.63
The Goldman Sachs Group, Inc.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	622,206,076	16	8.97	1.71
		Short	Interest held by the corporation(s) controlled by this substantial shareholder	603,039,644	16	8.70	1.65
Oceanwide International Equity Investment Limited	H	Long	Beneficial Owner	503,584,125	17	7.26	1.38

Changes in Share Capital and Information on Shareholders

Name of substantial shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant shares in issue (%)	Percentage of all the issued ordinary shares (%)
Ge Weidong	H	Long	Beneficial Owner	333,641,500			
					Interest held by the corporation(s) controlled by this substantial shareholder	79,642,700	
				413,284,200	18	5.96	1.13
Macquarie Group Limited	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	399,911,144	19	5.77	1.10
		Short	Interest held by the corporation(s) controlled by this substantial shareholder	13,003,747	19	0.19	0.04
Anbang Property Insurance Inc.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	381,608,500*	2 and 20	5.50	1.05

* As far as the Company is aware, the above numbers of shares reflected the interests or short positions of the relevant substantial shareholders as at 30 June 2017. However, these numbers of shares were not reported in the disclosure forms completed by these substantial shareholders because the changes in their interests did not result in a disclosure obligation in accordance with the SFO.

Notes:

- Anbang Insurance Group Co., Ltd. was deemed to have interests in the 6,126,903,907 A shares of the Company by virtue of its control over Anbang Life Insurance Inc., Anbang Property Insurance Inc. and Hexie Health Insurance Co., Ltd.
- The long position of 381,608,500 H shares was directly held by Anbang Asset Management (Hong Kong) Co., Limited. Anbang Asset Management (Hong Kong) Co., Limited was a wholly-owned subsidiary of Anbang Property Insurance Inc. and 95.26% of the issued share capital of Anbang Property Insurance Inc. was owned by Anbang Insurance Group Co., Ltd.
According to the SFO, Anbang Insurance Group Co., Ltd. and Anbang Property Insurance Inc. were deemed to have interests in the 381,608,500 H shares held by Anbang Asset Management (Hong Kong) Co., Limited.
- The interests that Orient Group Incorporation (which held 1,066,764,269 A shares of the Company) and Huaxia Life Insurance Co., Ltd. (which held 1,028,316,198 A shares of the Company) held in the 2,095,080,467 A shares, as set out in the above table, were deemed to be jointly owned by the two companies after they had become persons acting in concert.
- The 1,682,652,182 A shares were held by China Oceanwide Holdings Group Co., Ltd., of which 98% of the issued share capital was held by Oceanwide Group Co., Ltd., which was wholly owned by Tohigh Holdings Co., Ltd. Mr. Lu Zhiqiang (a Non-executive Director of the Company) held 77.14% of the issued share capital of Tohigh Holdings Co., Ltd.
According to the SFO, Mr. Lu Zhiqiang, Tohigh Holdings Co., Ltd. and Oceanwide Group Co., Ltd. were deemed to have interests in the 1,682,652,182 A shares held by China Oceanwide Holdings Group Co., Ltd. (Mr. Lu Zhiqiang's interests in shares are disclosed in this Interim Report in the section headed "Interests of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations").
- The interests that China Oceanwide Holdings Group Co., Ltd., Oceanwide Group Co., Ltd. and Tohigh Holdings Co., Ltd. held in the 1,682,652,182 A shares, as set out in the above table, were from the same block of shares.

Changes in Share Capital and Information on Shareholders

6. The 1,608,929,324 A shares comprised 85,323,189 A shares directly held by South Hope Industrial Co., Ltd. and 1,523,606,135 A shares directly held by New Hope Liuhe Investment Co., Ltd. 51% of the issued share capital of South Hope Industrial Co., Ltd. was held by New Hope Group Co., Ltd., while New Hope Liuhe Investment Co., Ltd. was held as to 25% and 75% of its issued share capital by New Hope Group Co., Ltd. and New Hope Liuhe Co., Ltd., respectively. 23.98% and 29.41% of the issued share capital of New Hope Liuhe Co., Ltd. were held by New Hope Group Co., Ltd. and South Hope Industrial Co., Ltd., respectively.

According to the SFO, New Hope Group Co., Ltd. was deemed to have interests in the 85,323,189 A shares held by South Hope Industrial Co., Ltd. and in the 1,523,606,135 A shares held by New Hope Liuhe Investment Co., Ltd. Meanwhile, New Hope Liuhe Co., Ltd. was also deemed to have interests in the 1,523,606,135 A shares held by New Hope Liuhe Investment Co., Ltd.

7. Ms. Li Wei is the spouse of Mr. Liu Yonghao (a Non-executive Director of the Company). According to the SFO, Ms. Li was deemed to have interests in the 1,608,929,324 A shares of the Company in which Mr. Liu Yonghao had interests (Mr. Liu Yonghao's interests in the shares are disclosed in this Interim Report in the section headed "Interests of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations").
8. Ms. Liu Chang held 37.66% of the issued share capital of New Hope Group Co., Ltd. (see note 6 above). According to the SFO, Ms. Liu was deemed to have interests in the 1,608,929,324 A shares of the Company in which New Hope Group Co., Ltd. had interests. Ms. Liu Chang is the daughter of Mr. Liu Yonghao (a Non-executive Director of the Company).
9. The interests that New Hope Group Co., Ltd., Ms. Li Wei and Ms. Liu Chang held in the 1,608,929,324 A shares, as set out in the above table, were from the same block of shares.
10. The 986,003,240 H shares (Long position) and the 986,003,211 H shares (Short position) were directly held by Guotai Junan Financial Products Limited. Guotai Junan Financial Products Limited was an indirectly wholly-owned subsidiary of Guotai Junan International Holdings Limited, of which 64.73% of interests were indirectly held by Guotai Junan Securities Co., Ltd. 32.67% of the issued share capital of Guotai Junan Securities Co., Ltd. was held by Shanghai International Group Co., Ltd.

According to the SFO, Guotai Junan International Holdings Limited, Guotai Junan Securities Co., Ltd. and Shanghai International Group Co., Ltd. were deemed to have interests in 986,003,240 H shares (Long position) and 986,003,211 H shares (Short position) held by Guotai Junan Financial Products Limited.

Besides, 986,003,240 H shares (Long position) and 986,003,211 H shares (Short position) were held through derivatives as follows:

100,000,000 H shares (Long position)	— through physically settled derivatives (on exchange)
779,051,500 H shares (Long position) and 100,000,000 H shares (Short position)	— through physically settled derivatives (off exchange)
106,951,740 H shares (Long position) and 886,003,211 H shares (Short position)	— through cash settled derivatives (off exchange)

11. The interests that Guotai Junan International Holdings Limited, Guotai Junan Securities Co., Ltd. and Shanghai International Group Co., Ltd. held in the 986,003,240 H shares (Long position) and 986,003,211 H shares (Short position), as set out in the above table, were from the same block of shares.
12. The 808,612,400 H shares (Long position) (in which 390,000,000 H shares were held through other derivatives) comprised 695,179,800 H shares directly held by Fosun International Limited, 35,592,600 H shares directly held by Pramerica-Fosun China Opportunity Fund, L.P. and 77,840,000 H shares directly held by Topper Link Limited. Pramerica-Fosun China Opportunity Fund, L.P. was a fund company managed by Fosun International Limited whereas Topper Link Limited was an indirectly wholly-owned subsidiary of Fosun International Limited. Fosun International Limited was owned as to 71.55% of its issued share capital by Fosun Holdings Limited, which in turn was a wholly-owned subsidiary of Fosun International Holdings Ltd. Mr. Guo Guangchang held 64.45% of the issued share capital of Fosun International Holdings Ltd.

According to the SFO, Fosun International Limited was deemed to have interests in the 35,592,600 H shares held by Pramerica-Fosun China Opportunity Fund, L.P. and in the 77,840,000 H shares held by Topper Link Limited. Meanwhile, Fosun International Holdings Ltd. and Mr. Guo Guangchang were also deemed to have interests in the 808,612,400 H shares held by Fosun International Limited.

13. The interests that Mr. Guo Guangchang, Fosun International Limited and Fosun International Holdings Ltd. held in the 808,612,400 H shares, as set out in the above table, were from the same block of shares.

Changes in Share Capital and Information on Shareholders

14. The 665,020,111 H shares (in which 586,003,211 H shares were held through cash settled derivatives (off exchange)) comprised 7,160,000 H shares directly held by Union Sky Holding Group Limited, 63,275,400 H shares directly held by Vogel Holding Group Limited and 594,584,711 H shares directly held by JH International Investment Company Limited. JH International Investment Company Limited was a wholly-owned subsidiary of Union Sky Holding Group Limited. Union Sky Holding Group Limited and Vogel Holding Group Limited were wholly-owned subsidiaries of Abhaya Limited, which was wholly-owned by Wickhams Cay Trust Company Limited. Ms. Shi Jing is the founder of the discretionary trust.

According to the SFO, Union Sky Holding Group Limited was deemed to have interests in the 594,584,711 H shares held by JH International Investment Company Limited. Ms. Shi Jing, Wickhams Cay Trust Company Limited and Abhaya Limited were deemed to have interests in the 7,160,000 H shares held by Union Sky Holding Group Limited, 63,275,400 H shares held by Vogel Holding Group Limited and 594,584,711 H shares held by JH International Investment Company Limited.

15. The interests that Ms. Shi Jing, Wickhams Cay Trust Company Limited and Abhaya Limited held in the 665,020,111 H shares, as set out in the above table, were from the same block of shares.
16. The Goldman Sachs Group, Inc. was deemed to have a long position in 622,206,076 H shares and a short position in 603,039,644 H shares of the Company by virtue of its control over a number of corporations, which were indirectly wholly-owned subsidiaries of The Goldman Sachs Group, Inc., except the following corporation:
- 16.1 Goldman Sachs Asset Management, L.P. held a long position in 3,583,114 H shares of the Company. 99% of the interests in Goldman Sachs Asset Management, L.P. was held by GSAM Holdings L.L.C., which was a wholly-owned subsidiary of The Goldman Sachs Group, Inc.

Besides, 468,331,949 H shares (Long position) and 552,696,183 H shares (Short position) were held through derivatives as follows:

4,767,500 H shares (Long position) and 109,087,500 H shares (Short position)	– through physically settled derivatives (on exchange)
200,000 H shares (Short position)	– through cash settled derivatives (on exchange)
122,033,000 H shares (Long position) and 442,098,000 H shares (Short position)	– through physically settled derivatives (off exchange)
341,531,449 H shares (Long position) and 1,310,683 H shares (Short position)	– through cash settled derivatives (off exchange)

17. The 503,584,125 H shares (Long position) were directly held by Oceanwide International Equity Investment Limited. 98.67% of the issued share capital of Oceanwide International Equity Investment Limited was indirectly held by Oceanwide Holdings Co., Ltd. 66.59% of the issued share capital of Oceanwide Holdings Co., Ltd. was held by China Oceanwide Holdings Group Co., Ltd. 98% of the issued share capital of China Oceanwide Holdings Group Co., Ltd. was held by Oceanwide Group Co., Ltd., which was wholly owned by Tohigh Holdings Co., Ltd. Mr. Lu Zhiqiang (a Non-executive Director of the Company) held 77.14% of the issued share capital of Tohigh Holdings Co., Ltd.
18. The 413,284,200 H shares (Long position) comprised 333,641,500 H shares (Long position) directly held by Mr. Ge Weidong and 79,642,700 H shares (Long position) held by Chaos Investment Co., Ltd., which was wholly-owned by Mr. Ge.
19. Macquarie Group Limited had a long position in 399,911,144 H shares and a short position in 13,003,747 H shares of the Company through a number of its wholly-owned subsidiaries. Besides, 194,298,000 H shares (Long position) and 8,420,000 H shares (Short position) were held through derivatives as follows:
- | | |
|--|--|
| 770,000 H shares (Long position) and 457,500 H shares (Short position) | – through physically settled derivatives (on exchange) |
| 40,000 H shares (Long position) and 398,500 H shares (Short position) | – through cash settled derivatives (on exchange) |
| 193,488,000 H shares (Long position) and 7,564,000 H shares (Short position) | – through cash settled derivatives (off exchange) |
20. The interests that Anbang Insurance Group Co., Ltd. and Anbang Property Insurance Inc. held in the 381,608,500 H shares (Long position), as set out in the above table, were from the same block of shares.

Save as disclosed above and in the section headed “Interests of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations”, the Company is not aware of any other person having 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.

Changes in Share Capital and Information on Shareholders

IV. Information on Preference Shares in the Three Years Immediately Before the End of the Reporting Period

(I) Issuance and listing of offshore preference shares

Pursuant to the approval by the CBRC (Yin Jian Fu [2016] No. 168) (銀監覆[2016]168號) and the approval by the CSRC (Zheng Jian Xu Ke [2016] No. 2971) (證監許可[2016]2971號), the Company issued non-cumulative perpetual preference shares (preference share name: CMBC 16USDPREF; code: 04609) in the amount of USD1,439 million on 14 December 2016 through a private offering in the overseas market in order to improve its capital structure, provide capital support for the effective implementation of its strategies, enhance its capital adequacy ratio and strengthen its capacity for sustainable development. The offshore preference shares were listed on the SEHK on 15 December 2016 with a nominal value of RMB100 per share at an offering price of USD20 per share. The total number of shares issued was 71,950,000, all of which were issued and fully paid in US dollar.

Based on the Renminbi central parity rate against US dollar published by China Foreign Exchange Trade System on 14 December 2016, the gross proceeds from the offering of the preference shares were approximately RMB9,933 million. The net proceeds raised from the offshore preference shares issuance, which were approximately RMB9,892 million after deduction of the issuance expenses, were all used to replenish the additional tier 1 capital of the Company.

For the issuance terms of the offshore preference shares, please refer to the announcements of the Company published on the websites of the SSE, the HKEXnews website of the SEHK and the website of the Company.

Changes in Share Capital and Information on Shareholders

(II) Number of holders of offshore preference shares and particulars of shareholding

As at the end of the Reporting Period, the number of holders of offshore preference shares was one. As at the end of the month prior to the disclosure date of this Interim Report (i.e. 28 July 2017), the number of holders of offshore preference shares was one.

The top ten holders of preference shares (or nominees) of the Company are set out as follows (the following data were based on the registered holders of the preference shares as at 30 June 2017):

(Unit: Share)

Name of shareholder	Type of shareholder	Class of share	Changes over the Reporting Period	Shareholdings percentage (%)	Number of shares held	Number of shares subject to restriction held	Number of shares pledged or locked-up
The Bank of New York Mellon Depository (Nominees) Limited	Overseas legal person	Offshore preference shares	—	100	71,950,000	—	Unknown

- Notes:
1. The number of shares held by the preference shareholder was recorded according to the register of holders of the preference shares of the Company.
 2. As the preference shares were issued through private offering in the overseas market, information of nominees of the allotted investors was recorded on the register of holders of the preference shares.
 3. The Company does not know if there is any related relationship or concerted action among the above preference shareholder and the top ten shareholders of the ordinary shares.

(III) Changes in offshore preference shares

(Unit: Share)

Class of offshore preference shares	Offshore preference shares issued as of 31 December 2016	Changes over the Reporting Period	Offshore preference shares issued as of 30 June 2017
USD preference shares	71,950,000	—	71,950,000

Changes in Share Capital and Information on Shareholders

(IV) Other information on the preference shares

During the Reporting Period, no preference shares of the Company have been repurchased, converted into ordinary shares or have their voting rights restored.

According to the requirements promulgated by the Ministry of Finance, such as the Accounting Standards for Business Enterprises No. 37 — Presentation of Financial Instruments (《企業會計準則第37號 — 金融工具列報》) and the Provisions on Differentiating Financial Debt and Equity Instruments and Related Accounting Treatments (《金融負債與權益工具的區分及相關會計處理規定》), there was no need for the issued and existing preference shares of the Company to be settled through delivery of cash or other financial assets or exchange of financial assets or financial liabilities. In the future, the Company will have no obligation to deliver a variable quantity of its equity instruments as other equity instruments for accounting purpose.

The dividend of the offshore preference shares of the Company will be paid in cash on an annual basis. During the Reporting Period, the issued preference shares of the Company were not yet due for dividend distribution, and there was no dividend payment in respect of the offshore preference shares.

V. Information on Issuance of Financial Bonds of the Company During the Reporting Period

Pursuant to the approval by the CBRC (Yin Jian Fu [2015] No. 683) (銀監覆[2015]683號) and the approval by the PBOC in the administrative permit (Yin Shi Chang Xu Zhun Yu Zi [2016] No. 161) (銀市場許准予字[2016]第161號), the Company issued the first tranche of financial bonds (bond name: 17 Minsheng Bank 01; bond code: 1728004) with a total amount of RMB30 billion through a public offering in the national interbank bond market on 7 March 2017. As assessed by Dagong Global Credit Rating Co., Ltd, the credit rating of this tranche of financial bonds was AAA. These financial bonds were issued for a term of three years with fixed interest rate at the nominal interest rate of 4%. The interest was paid on an annual basis. On 9 March 2017, the proceeds from the bonds were fully credited to the account of the Company and the Company completed the registration and entrustment of the bonds at China Central Depository & Clearing Co., Ltd.

According to the applicable rules, the proceeds from this tranche of bonds were used for loan extension, including but not limited to loans to small and micro enterprises and agricultural loans. The proceeds were used in the same way as stated in the prospectus.

As at the end of the Reporting Period, the balance of the first tranche of financial bonds of China Minsheng Bank of 2017 was RMB30 billion.

Changes in Share Capital and Information on Shareholders

VI. Controlling Shareholder and Ultimate Controller

The Company does not have any controlling shareholder or ultimate controller. As at the end of the Reporting Period, the top ten shareholders of the Company (other than HKSCC Nominees Limited) held an aggregate of 41.20% shares of the Company. Anbang Life Insurance Inc. – Steady Investment Portfolio, the single largest shareholder of the Company, held 6.49% shares of the Company. There was no shareholder who could control more than half of the voting rights of the Board or at general meetings in accordance with its shareholding or the Articles of Association, or by agreements.

Directors, Supervisors, Senior Management and Employees

I. Directors, Supervisors and Senior Management

(I) Basic information

Name	Gender	Year of birth	Position	Term of office	Shares held at the beginning of the Reporting Period (share)	Shares held at the end of the Reporting Period (share)
HONG Qi	M	1957	Vice Chairman, Executive Director & President	10 April 2012–18 August 2014	0	0
			Vice Chairman, Executive Director, President & Acting Chairman	18 August 2014–28 August 2014		
			Chairman & Executive Director	28 August 2014–31 January 2015		
			Chairman, Executive Director & Acting President	31 January 2015–19 November 2015		
			Chairman & Executive Director	19 November 2015–present		
ZHANG Hongwei	M	1954	Vice Chairman & Non-executive Director	10 April 2012–present	0	0
LU Zhiqiang	M	1951	Vice Chairman & Non-executive Director	10 April 2012–present	0	0
LIU Yonghao	M	1951	Vice Chairman & Non-executive Director	10 April 2012–present	0	0
LIANG Yutang	M	1958	Vice Chairman & Executive Director	10 April 2012–present	0	0
ZHENG Wanchun	M	1964	President	19 November 2015–1 February 2016	0	0
			Executive Director & President	1 February 2016–present		
SHI Yuzhu	M	1962	Non-executive Director	20 February 2017–present	0	0
WU Di	M	1965	Non-executive Director	15 June 2012–present	0	0
YAO Dafeng	M	1962	Non-executive Director	23 December 2014–present	0	0
SONG Chunfeng	M	1969	Non-executive Director	20 February 2017–present	0	0
TIAN Zhiping	M	1966	Non-executive Director	20 February 2017–Present	0	0
WENG Zhenjie	M	1962	Non-executive Director	20 February 2017–Present	0	0
CHENG Hoi-chuen	M	1948	Independent Non-executive Director	15 June 2012–present	0	0
LIU Jipeng	M	1956	Independent Non-executive Director	28 October 2016–present	0	0
LI Hancheng	M	1963	Independent Non-executive Director	28 October 2016–present	0	0
XIE Zhichun	M	1958	Independent Non-executive Director	28 October 2016–present	0	0
PENG Xuefeng	M	1962	Independent Non-executive Director	20 February 2017–present	0	0
LIU Ningyu	M	1969	Independent Non-executive Director	20 February 2017–present	0	0
ZHANG Juntong	M	1974	Employee Supervisor	15 February 2017–20 February 2017	0	0
			Chairman of the Supervisory Board & Employee Supervisor	20 February 2017–present		
WANG Jiazhi	M	1959	Vice Chairman of the Supervisory Board & Employee Supervisor	10 April 2012–present	759,720	759,720
GUO Dong	M	1961	Employee Supervisor	18 March 2016–30 March 2016	0	0
			Vice Chairman of the Supervisory Board & Employee Supervisor	30 March 2016–present		
WANG Hang	M	1971	Non-executive Director	10 April 2012–20 February 2017	0	0
			Shareholder Supervisor	20 February 2017–Present		

Directors, Supervisors, Senior Management and Employees

Name	Gender	Year of birth	Position	Term of office	Shares held at the beginning of the Reporting Period (share)	Shares held at the end of the Reporting Period (share)
ZHANG Bo	M	1973	Shareholder Supervisor	20 February 2017–Present	0	0
LU Zhongnan	M	1955	Shareholder Supervisor	10 April 2012–present	0	0
WANG Yugui	M	1951	Non-executive Director External Supervisor	10 April 2012–20 February 2017 20 February 2017–present	0	0
BAO Jiming	M	1952	External Supervisor	20 February 2017–present	0	0
CHENG Guoqi	M	1975	External Supervisor	20 February 2017–present	0	0
SHI Jie	M	1965	Assistant President Executive Vice President	7 August 2012–5 September 2016 5 September 2016–present	0	0
LI Bin	F	1967	Assistant President Executive Vice President	7 August 2012–5 September 2016 5 September 2016–present	0	0
LIN Yunshan	M	1970	Assistant President Executive Vice President	7 August 2012–5 September 2016 5 September 2016–present	0	0
BAI Dan	F	1963	Chief Financial Officer	10 April 2012–present	0	0
ZHANG Yuebo	M	1962	Chief Audit Officer	20 February 2017–present	0	0
HU Qinghua	M	1963	Chief Risk Officer	20 February 2017–present	0	0
FANG Zhou	M	1970	Board Secretary	20 February 2017–present	0	0
WANG Junhui	M	1971	Former Non-executive Director	10 April 2012–20 February 2017	0	0
GUO Guangchang	M	1967	Former Non-executive Director	17 December 2012–20 February 2017	0	0
WANG Lihua	M	1963	Former Independent Non-executive Director	10 April 2012–20 February 2017	0	0
HAN Jianmin	M	1969	Former Independent Non-executive Director	10 April 2012–20 February 2017	0	0
DUAN Qingshan	M	1957	Former Chairman of the Supervisory Board & Employee Supervisor	10 April 2012–20 February 2017	0	0
ZHANG Disheng	M	1955	Former Shareholder Supervisor	10 April 2012–20 February 2017	0	0
ZHANG Ke	M	1953	Former External Supervisor	10 April 2012–20 February 2017	0	0
WANG Liang	M	1942	Former External Supervisor	10 April 2012–20 February 2017	0	0
WAN Qingyuan	M	1965	Former Board Secretary	10 April 2012–20 February 2017	0	0
LIN Xiaoxuan	M	1965	Former Chief Information Officer (dismissed)	20 February 2017–28 August 2017	0	0

Notes:

- The terms of office of the Directors, Supervisors and Senior Management cover the terms of the seventh session of the Board and Supervisory Board which have taken effect from 20 February 2017 until the disclosure date of this Interim Report;
- On 22 January 2017, the Company issued the Announcement on the Approvals of the Qualifications of Senior Management (《關於高級管理人員任職資格核准的公告》), pursuant to which, the qualifications of Mr. Shi Jie, Ms. Li Bin and Mr. Lin Yunshan as Executive Vice Presidents of the Company were approved by the CBRC;
- On 20 February 2017, the seventh session of the Board and the seventh session of the Supervisory Board of the Company were elected at the first extraordinary general meeting for 2017 of the Company. The resolutions regarding the appointment of the Chairman, Vice Chairmen, President, Executive Vice Presidents, Chief Financial Officer, Chief Audit Officer, Chief Information Officer, Chief Risk Officer and Board Secretary were considered and approved at the first meeting of the seventh session of the Board. The qualifications of certain Directors are subject to the approval of the regulatory authorities of China's banking industry;

Directors, Supervisors, Senior Management and Employees

4. On 23 February 2017, the Company issued the Announcement on Approvals of the Qualifications of Independent Directors (《關於獨立董事資格核准的公告》), pursuant to which, the qualifications of Mr. Liu Jipeng and Mr. Li Hancheng as Independent Non-executive Directors of the Company were approved by the CBRC;
5. On 5 April 2017, the Company issued the Announcement on Approvals of the Qualifications of Directors (《關於董事任職資格核准的公告》), pursuant to which, the qualifications of Mr. Shi Yuzhu and Mr. Song Chunfeng as Non-executive Directors of the Company and the qualifications of Mr. Xie Zhichun, Mr. Peng Xuefeng and Mr. Liu Ningyu as Independent Non-executive Directors of the Company were approved by the CBRC;
6. On 15 August 2017, the Company issued the Announcement on Approval of the Qualification of Senior Management (《關於高級管理人員資格核准的公告》), pursuant to which, the qualification of Mr. Hu Qinghua as Chief Risk Officer of the Company was approved by the CBRC;
7. On 28 August 2017, the fifth meeting of the seventh session of the Board considered and approved the dismissal of Mr. Lin Xiaoxuan as Chief Information Officer;
8. During the Reporting Period, none of the incumbent Directors, Supervisors and Senior Management or Directors, Supervisors or Senior Management retired during the Reporting Period had been subject to any penalty imposed by the securities regulatory authorities in the past three years.

(II) Resignation of Directors, Supervisors and Senior Management during the Reporting Period and the reasons therefor

1. On 20 February 2017, Mr. Wang Yugui, Mr. Wang Hang, Mr. Wang Junhui, Mr. Guo Guangchang, Mr. Wang Lihua and Mr. Han Jianmin of the sixth session of the Board ceased to serve as Directors of the Company and Mr. Wan Qingyuan ceased to serve as the Board Secretary of the Company due to the change of session of the Board.
2. On 20 February 2017, Mr. Duan Qingshan, Mr. Zhang Ke, Mr. Zhang Disheng and Mr. Wang Liang of the sixth session of the Supervisory Board ceased to serve as Supervisors of the Company due to the change of session of the Supervisory Board.
3. On 28 August 2017, the fifth meeting of the seventh session of the Board considered and approved the dismissal of Mr. Lin Xiaoxuan as Chief Information Officer.

(III) Changes of Information of Directors and Supervisors

1. On 20 February 2017, Mr. Wang Yugui, Mr. Wang Hang, Mr. Wang Junhui, Mr. Guo Guangchang, Mr. Wang Lihua and Mr. Han Jianmin of the sixth session of the Board ceased to serve as Directors of the Company due to change of session of the Board.
2. On 20 February 2017, Mr. Duan Qingshan, Mr. Zhang Ke, Mr. Zhang Disheng and Mr. Wang Liang of the sixth session of the Supervisory Board ceased to serve as Supervisors of the Company due to change of session of the Supervisory Board.

Directors, Supervisors, Senior Management and Employees

3. Since June 2017, Mr. Zhang Hongwei, a Non-executive Director of the Company, has been appointed as the honorary chairman of Orient Group Incorporation (a company listed on the SSE (stock code: 600811)).
4. Mr. Shi Yuzhu, a Non-executive Director of the Company, ceased to serve as the chairman of the board of directors of Shanghai Giant Network Science Technologies Co., Ltd., a director of Shanghai Zhengtu Information Technology Co., Ltd. and a vice chairman of the board of directors of China Minsheng Investment Corp., Ltd.
5. Mr. Wu Di, a Non-executive Director of the Company, has been appointed as a vice president of Chinese Boxing Federation, a member of the standing committee of Federation of Industry and Commerce of Fujian Province, the honorary chairman of the first session of Xiamen Chamber of Commerce in Shanghai, a member of Xiamen CPPCC and the chief supervisor of Xiamen Silk Road National Strategy Research Center. Mr. Wu ceased to serve as a vice chairman of Enterprise Work Research Association of Xiamen Municipal Committee of China National Democratic Construction Association.
6. Mr. Weng Zhenjie, a Non-executive Director of the Company, has been appointed as a director of China Trust Registration Corporation Limited and Chongqing Three Gorges Bank Co., Ltd. Mr. Weng ceased to serve as the chief executive officer of Chongqing International Trust Company Limited.
7. Mr. Liu Jipeng, an Independent Non-executive Director of the Company, has been appointed as the dean of the Business School of China University of Political Science and Law. Since May 2017, Mr. Liu ceased to serve as an independent non-executive director of AVIC Capital Co., Ltd. (a company listed on the SSE (stock code: 600705)).
8. Since April 2017, Mr. Xie Zhichun, an Independent Non-executive Director of the Company, has been appointed as a non-executive director of China Smartpay Group Holdings Limited (a company listed on the SEHK (stock code: 08325)).
9. Mr. Wang Hang, a Supervisor of the Company, has been appointed as a vice chairman of the board of directors of CMBC International.
10. Since March 2017, Mr. Bao Jiming, a Supervisor of the Company, has been appointed as an independent non-executive director of Ozner Water International Holding Limited (a company listed on the SEHK (stock code: 02014)).

Directors, Supervisors, Senior Management and Employees

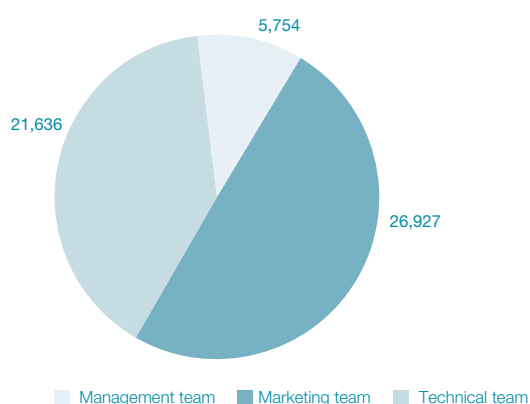
(IV) Service contracts of Directors and Supervisors

In accordance with Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, the Company has entered into contracts with its Directors and Supervisors in respect of compliance with the relevant laws and regulations, the Articles of Association of the Company and the provisions of arbitration. Except as disclosed above, the Company has not entered into and does not intend to enter into any service contracts with its Directors or Supervisors in respect of their services as Directors or Supervisors (excluding the service contracts which will expire within one year or are terminable by the employer within one year without payment of compensation, other than statutory compensation).

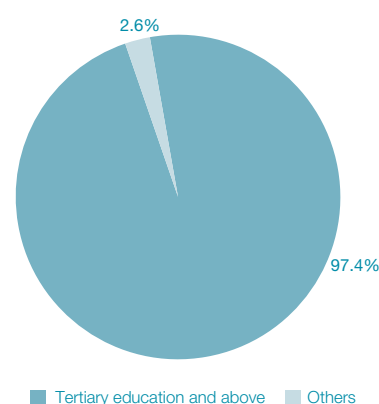
II. Employees

As at the end of the Reporting Period, the Group had 56,933 employees, of which 54,317 were employees of the Company and 2,616 were employees of the subsidiaries of the Company. Divided by professional specialities, 5,754 employees were categorized as the management team, 26,927 employees as the marketing team, and 21,636 employees as the technical team. The Company had 52,924 employees with tertiary qualifications or above, accounting for 97.4% of the total number of employees. 239 employees of the Company have retired.

**Employee Structure – By work nature
(Unit: person)**



Employee Structure – By qualification



III. Business Network

As at the end of the Reporting Period, the Company has set up 42 branches in 41 cities across China, with 2,984 banking outlets in total.

Directors, Supervisors, Senior Management and Employees

During the Reporting Period, Haikou Branch of the Company had commenced its operation.

Major entities of the Company as at the end of the Reporting Period are shown as follows:

Name of entity	Number of outlets	Headcount	Total assets (RMB in millions) (excluding deferred income tax assets)	Address
Head Office	1	12,916	3,093,966	No. 2 Fuxingmennei Avenue, Xicheng District, Beijing
Beijing Branch	215	3,575	830,170	No. 2 Fuxingmennei Avenue, Xicheng District, Beijing
Shanghai Branch	88	2,606	449,052	No. 100 Pudong Nan Road, Pudong New Area, Shanghai
Guangzhou Branch	125	2,217	246,640	Minsheng Tower, No. 68 Liede Avenue, Zhujiang New Town, Tianhe District, Guangzhou
Shenzhen Branch	107	1,805	267,598	Minsheng Bank Tower, Haitian Road, Futian District, Shenzhen
Wuhan Branch	134	1,525	120,084	China Minsheng Bank Tower, No. 396 Xinhua Road, Jiangnan District, Wuhan
Dalian Branch	84	959	69,591	No. 4A Wuwu Road, Zhongshan District, Dalian
Taiyuan Branch	114	1,344	108,457	No. 2 Bingzhou Bei Road, Taiyuan
Shijiazhuang Branch	187	2,222	84,762	Minsheng Bank Tower, No. 197 Yu Hua Road East, Chang'an District, Shijiazhuang
Hangzhou Branch	86	1,626	126,789	Jinzun, Zunbao Mansion, No. 98 Shimin Street, Qianjiang New Town, Jianggan District, Hangzhou
Nanjing Branch	187	2,786	385,562	No. 20 Hongwu Bei Road, Nanjing
Chongqing Branch	104	1,020	67,818	Tongjiyuanjing Building, No. 9 Jianxin Bei Road, Jiangbei District, Chongqing
Xi'an Branch	75	1,112	70,354	China Minsheng Bank Tower, No. 78 Erhuan Nanlu Xiduan, Xi'an
Fuzhou Branch	49	982	55,844	No. 282 Hudong Road, Fuzhou
Jinan Branch	170	1,921	110,677	No. 229 Luoyuan Street, Jinan
Ningbo Branch	44	739	42,395	No. 815 Ju Xian Road, Gaoxin District, Ningbo
Chengdu Branch	143	1,421	112,353	Block 6, No. 966 North Section of Tianfu Avenue, Gaoxin District, Chengdu
Shantou Branch	37	432	16,285	1-3/F, Huajing Plaza, No. 17 Hanjiang Road, Longhu District, Shantou
Tianjin Branch	68	891	62,666	China Minsheng Bank Tower, No. 43 Jianshe Road, Heping District, Tianjin
Kunming Branch	129	829	43,918	Chuntian Yinxiang Building, No. 331 Huancheng Nan Road, Kunming
Quanzhou Branch	48	534	54,332	No. 689 Citong Road, Fengze District, Quanzhou
Suzhou Branch	39	1,171	102,746	Minsheng Finance Tower, Block 23, Times Square, Suzhou Industrial Park, Suzhou
Qingdao Branch	85	976	47,335	No. 195, Hong Kong East Road, Laoshan District, Qingdao
Wenzhou Branch	30	569	52,016	Hengha Building, No. 1707 Wenzhou Avenue, Wenzhou
Xiamen Branch	23	512	81,934	7/F, Lixin Plaza, No. 90 Hubin Nan Road, Xiamen
Zhengzhou Branch	137	1,591	100,748	Minsheng Bank Tower, No. 1 CBD Shangwu Waihuan Road, Zhengdong New District, Zhengzhou

Directors, Supervisors, Senior Management and Employees

Name of entity	Number of outlets	Headcount	Total assets (RMB in millions) (excluding deferred income tax assets)	Address
Changsha Branch	66	901	58,536	Minsheng Tower, No. 189 Binjiang Road, Yuelu District, Changsha
Changchun Branch	32	606	25,148	Minsheng Tower, No. 500 Changchun Street, Nangan District, Changchun
Hefei Branch	72	738	66,393	Tian Qing Building, No. 135 Bozhou Road, Hefei
Nanchang Branch	58	560	40,549	No. 545, Huizhan Road, Honggutan New District, Nanchang
Nanning Branch	51	556	42,742	1, 8-12/F, East Tower, Guangxi Development Mansion, No. 111-1 Minzu Avenue, Nanning
Hohhot Branch	32	383	47,303	China Minsheng Bank Tower, Block C, Oriental Junzuo, No. 20 Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia
Shenyang Branch	64	504	35,414	No. 65 Nanjing North Street, Heping District, Shenyang
Hong Kong Branch	1	178	140,733	40/F and 4106-08, 41/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Guiyang Branch	44	441	34,578	No. 28 Yangguan Avenue, Guanshanhu District, Guiyang
Lhasa Branch	5	153	9,178	Global Plaza, No. 8 Beijing West Road, Lhasa
Shanghai Pilot Free Trade Zone Branch	2	105	30,490	40/F, No.100 Pudong South Road, Pudong New District, Shanghai
Harbin Branch	9	200	14,737	1-6/F, Olympic Centre Area 1, No. 11 Aijian Road, Daoli District, Harbin
Lanzhou Branch	11	224	14,446	1-4/F, Gansu Daily Press Plaza, No. 123 Baiyin Road, Chengguan District, Lanzhou
Urumqi Branch	2	140	10,911	No. 314, Yangziji Road, Saybagh District, Urumqi
Xining Branch	2	98	5,733	1-4/F, Annex Building of Telecom Industrial Tower, No. 102 Kunlun Zhong Road, Chengzhong District, Xining
Yinchuan Branch	2	90	5,005	1-5/F, Block 19, Jinhaimingyue, No. 106 Shanghai West Road, Jinfeng District, Yinchuan
Haikou Branch	22	159	22,143	Zhonghuan International Plaza, No.77 Binhai Boulevard, Longhua District, Haikou
Inter-region adjustment	—	—	-1,861,378	
Total	2,984	54,317	5,546,753	

Notes: 1. The number of institutions takes into account all types of banking establishments, including the Head Office, 42 tier-one branches and 41 business departments of tier-one branches (excluding the Hong Kong Branch), tier-two branches, remote sub-branches, county sub-branches, local sub-branches, small -business special sub-branches, community sub-branches and small-business sub-branches.

2. Inter-region adjustment arises from the reconciliation and elimination of inter-region balances.

Corporate Governance

I. Corporate Governance Overview

During the Reporting Period, the Company further refined its corporate governance structure, continuously improved the internal control system and overall auditing. The Board duly performed its responsibilities for risk guidance and risk management while the Supervisory Board effectively carried out its corporate governance duties. As such, these efforts have facilitated the compliance operation and stable development of the Company and enhanced the performance and discipline of the Directors, Supervisors and Senior Management. Details of the corporate governance measures are as follows:

1. During the Reporting Period, the Company organized, prepared and convened a total of 40 meetings, including two shareholders' general meetings, six Board meetings, 21 meetings of the special committees of the Board, three meetings of the Supervisory Board and eight meetings of the special committees of the Supervisory Board. 281 material resolutions, including the Company's Annual Report, Working Report of the Board, Working Report of the Supervisory Board, Working Report of the President, financial budgets and final account reports, profit distribution plans, related party transactions and investigation and study report of the Supervisory Board, were considered and approved at these meetings.
2. During the Reporting Period, in accordance with the domestic and overseas regulatory requirements, the Company amended the Articles of Association, the Administrative Measures for Outsourcing Risk Management (《外包風險管理辦法》), the Administrative Measures for Continuous Operation (《業務連續性管理辦法》), the Guiding Opinion on Risk Management by the Board of Directors in 2017 (《董事會2017年風險管理指導意見》), the Management Rules for Information Disclosure (《信息披露事務管理制度》), the Internal Reporting System for Material Information (《重大信息內部報告制度》), the Accountability System for Material Errors in Information Disclosure in Annual Reports (《年報信息披露重大差錯責任追究制度》) and the Schedule for Preparation of Regular Reports (《定期報告編製規程》), and formulated the Administrative Measures for Suspension and Exemption of Information Disclosure (《暫緩與豁免信息披露管理辦法》) which further improved the corporate governance system of the Company.
3. Pursuant to the stipulation of the Provisional Measures for Performance Appraisal of Senior Management (《高級管理人員盡職考評試行辦法》), under the guidance of the Compensation and Remuneration Committee of the Board, the Company evaluated the performance of the Senior Management at the Head Office appointed by the Board for 2016, and determined their remunerations in accordance with the results of the performance appraisal in order to continuously facilitate the improvement of their capabilities in performing duties.

Corporate Governance

Pursuant to the Provisional Measures for Performance Appraisal of Directors (《董事履職評價試行辦法》), the Company completed the annual appraisal of the Directors' performance for 2016 commenced at the beginning of the year under the guidance of the Compensation and Remuneration Committee of the Board to promote due diligence and self-discipline of the Directors.

4. During the Reporting Period, in compliance with the laws and regulations, such as the Company Law of the PRC, and the Articles of Association and according to the development strategies and major objectives of the Company, the Supervisory Board held 11 meetings to consider 22 resolutions including but not limited to the Annual Report of the Company and the Working Report of the Supervisory Board. The Supervisory Board attended the meetings of the Board and important business meetings of the Senior Management, conducted investigations and researches on comprehensive risk management system, overall asset quality, implementation of the strategic plan and business management of branches, and duly fulfilled the duties of supervising the operation management and business development of the Company. It also supervised and advised on major issues including legal operation, financial reporting and internal control of the Company. It carried out the supervision and evaluations on the performance of the Directors, Supervisors and Senior Management in accordance with the requirements and in a timely manner. During the Reporting Period, with the orderly implementation of supervisory measures as planned, the Supervisory Board completed its regular supervision and strengthened its supervision on the Company's asset quality management, risk management and internal control management. It also fully performed its functions in corporate governance, promoting the rationalized operation and steady development of the Company.
5. During the Reporting Period, the Supervisory Board conducted investigation and research on the comprehensive risk management system, overall asset management, effectiveness of the Phoenix Project, operation management of branches and internal control management according to its work plan. The researches were mainly conducted through onsite inspection, information collection and data analysis. The Supervisory Board held forums and interviews with relevant departments of the Head Office and some branches. The Supervisory Board compiled various research reports based on the information and data collected, and provided dozens of supervisory opinions and suggestions on relevant works of the Company which were highly valued by the Board and the Senior Management. Related departments were required to carry out rectifications according to the reports, which further reflected the supervisory function of the Supervisory Board.

Corporate Governance

6. During the Reporting Period, pursuant to regulatory requirements, the Board duly performed the duties of risk guidance and risk management by implementing a large number of measures in respect of risk guidelines for the Board, risk research, risk assessment, business review, risk report and etc., which effectively enhanced the prevention and control for risk management of the Company. The formulation of the Guiding Opinion on Risk Management by the Board of Directors in 2017 (《董事會2017年風險管理指導意見》) helped identify major problems of operation and risk management, specified the guiding principles of risk management of the Board, adopted the risk preference and annual risk management objectives of the Board and proposed implementation requirements, which effectively instructed the Head Office in formulating and implementing the annual risk management policies and plans. Through semi-annual risk assessment, the Board ensured its overall control over the risk management of the Company, strengthened its duties in risk supervision and enhanced the effectiveness of risk management. The risk management principles of the Board were adopted through reviewing and approving business projects beyond risk limits. In the meantime, it also conducted various types of researches on risks to provide references for the decision-making on risks.
7. During the Reporting Period, the Company continuously strengthened its internal control and comprehensive audit. It enhanced the compliance awareness of all staff, strengthened the internal control management and risk prevention, and improved the effectiveness of internal control and operation management.
8. During the Reporting Period, in order to ensure that all shareholders and investors can get access to material information of the Company in a timely, accurate and complete manner, the Company published a total of 37 A share announcements and 83 H share announcements, including 26 overseas regulatory announcements. The Company completed the preparation of the Annual Report for 2016 and the First Quarterly Report of 2017. In order to consolidate its influence in the capital market, during the Reporting Period, the Company came into contact with over 100 investors in aggregate through organizing on-site visits, teleconferences, emails and E-interaction platform of SSE (上交所e互動平台). Six special issues of Investors (《投資者》) were published.

During the Reporting Period, the Company has conducted a thorough internal inspection and no information has been provided to substantial shareholders or ultimate controllers before its publication.

Corporate Governance

II. Shareholders' General Meetings

During the Reporting Period, the Company held two general meetings, at which a total of 102 proposals were considered and approved. Details are as follows:

On 20 February 2017, the first extraordinary general meeting for 2017, the first A share class meeting for 2017 and the first H share class meeting for 2017 of the Company were held in Beijing in which shareholders attended and voted on-site and online. Please refer to the announcement dated 20 February 2017 published on the website of the Company (www.cmbc.com.cn) and the HKEXnews website of the SEHK (www.hkexnews.hk) for details.

On 16 June 2017, the annual general meeting for 2016, the second A share class meeting for 2017 and the second H share class meeting for 2017 of the Company were held in Beijing in which shareholders attended and voted on-site and online. Please refer to the announcement dated 16 June 2017 published on the website of the Company (www.cmbc.com.cn) and the HKEXnews website of the SEHK (www.hkexnews.hk) for details.

III. Meetings of the Board and its Special Committees

During the Reporting Period, six Board meetings were convened by the Board.

During the Reporting Period, 21 meetings of the special committees under the Board were convened, including four meetings of the Strategic Development and Investment Management Committee, four meetings of the Risk Management Committee, four meetings of the Audit Committee, five meetings of the Related Party Transactions Supervision Committee, two meetings of the Compensation and Remuneration Committee and two meetings of the Nomination Committee.

During the Reporting Period, the Strategic Development and Investment Management Committee under the Board discussed 32 designated proposals, and received and considered four special reports. The Risk Management Committee discussed 11 designated proposals, received and considered three special working reports, and handled 16 business projects beyond risk limits. The Audit Committee discussed 18 designated proposals, and received and considered one special working report. The Related Party Transactions Supervision Committee discussed six designated proposals. The Compensation and Remuneration Committee discussed 11 designated proposals, and received and considered two special working reports, and the Nomination Committee discussed 11 designated proposals.

Corporate Governance

IV. Meetings of the Supervisory Board and its Special Committees

During the Reporting Period, three Supervisory Board meetings were convened by the Supervisory Board and eight meetings of the special committees under the Supervisory Board were convened, including three meetings of the Nomination and Examination Committee and five meetings of the Supervisory Committee.

V. Internal Control and Internal Audit

(I) Internal control evaluation

The Company has set up a comprehensive corporate governance structure with clear division of responsibilities among the Board, the Supervisory Board and the management team and maintained effective internal control management system. In compliance with the Law of the People's Republic of China on Commercial Banks (《中華人民共和國商業銀行法》), Guidelines for Internal Control of Commercial Banks (《商業銀行內部控制指引》), the Basic Standard for Corporate Internal Control (《企業內部控制基本規範》) and other laws and regulations and regulatory rules, the Company has formed a set of rational and comprehensive internal control policies and formulated internal control mechanisms for risk prevention, control, subsequent supervision and rectification.

The Company duly performed the supervisory and evaluation functions of its internal audit, constantly improved the supervisory system of internal control evaluation and optimized its internal control evaluation procedures by using techniques of Lean Six Sigma (精益六西格瑪), so as to improve the internal control system and enhance the refinement of internal control management. During the Reporting Period, in accordance with the principles of internal control evaluation and annual audit plan, the Company conducted comprehensive internal control evaluations on five tier-one branches in Xi'an, Chengdu, Nanjing, Shantou and Jinan, and 12 tier-two branches in Xinyang, Suqian, Yancheng, Honghe, Tai'an, Jilin, Panjin, Luohe, Zhangjiakou, Changde, Taizhou and Ordos, which effectively covered major businesses and risks. The Company supervised the implementation of internal control and the effective rectification of risks issues through various measures, including regular monitoring, subsequent audits and the adoption of effectiveness assessment of internal control, and adopted audit accountability on major risks according to the Company's regulations. Through constant internal control evaluations, the Company effectively improved the internal control system and enhanced the internal control management.

(II) Internal audit

The Company has an internal audit organization — the Audit Department. The Company adopted an independent internal audit model with a vertical management structure topped by the Head Office. Currently, the Company has six regional audit centers in Northern China, Eastern China, Southern China, Central China, Northeast China and Western China. The Audit Department

Corporate Governance

set up the corporate business audit center, retail business audit center, financial markets business audit center, information technology audit center, public service audit center, systematic risk audit and data application center, planning and project management center, supervision and coordination and evaluation supervision center according to the specialized operation characteristics of the Company. The Audit Department is responsible for performing independent examination and evaluation on all business operations and management activities of the Company, monitoring and examining the effectiveness of its internal control and carrying out evaluation and advisory activities for its internal control independently and objectively. To ensure the independence and effectiveness of the internal audit, material audit findings and internal control defects are directly reported to Senior Management and the Board. The Company has set up and improved the standardized policies and systems for internal audit, and an integrated audit examination system comprising on-site audit and off-site audit. Off-site audit system covers all asset and liability businesses of the Company. Risk-oriented audit on internal control covers all business lines and internal management procedures including corporate banking, retail banking, financial markets, trade finance, credit card, financial accounting and risk management. The Company has initially achieved full coverage of audit on risk exposures in credit, operation, market and compliance.

The Company performed supervision and examination on internal control of business units through comprehensive audits, special audits, off-site audits and departure audits. During the Reporting Period, in accordance with the annual audit plan, the Audit Department efficiently completed the audit tasks for the first half of 2017 and performed a total of 17 special audits. It performed 90 economic accountability audits (including five economic accountability audits on rural banks) and issued 83 economic accountability audit reports. It issued 39 special audit reports and investigation reports. It also issued 15 risk reminders and audit comments. Moreover, 45 investigation and analysis reports, reports on major concerns and other reports were issued. The Audit Department has prepared 30 internal audit bulletins for 2016. It performed guidance audits on three new branches and fully performed its duties of internal audit supervision, evaluation and consultation. The problems identified in the audit were tracked and urged to be rectified and the persons responsible for the non-compliance were held accountable for audit, which have notably improved the internal control and management of the Company.

VI. Compliance with the Corporate Governance Code Set Out in Appendix 14 of the Hong Kong Listing Rules

During the Reporting Period, the Company has fully complied with the code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules and most of the recommended best practices contained therein.

Report of the Board of Directors

I. Profit Distribution for the Second Half of 2016

The Board has distributed dividends to the shareholders of the Company according to the Profit Distribution Plan for the Second Half of 2016 which was passed at the 2016 annual general meeting. On the basis of the total share capital of the Company on the record date, the Company distributed cash dividends for the second half of 2016 of RMB1.65 (tax inclusive) for every 10 shares to all shareholders whose names appear on the register of members on the record date. The total cash dividends for A shares and H shares amounted to RMB4,876 million and RMB1,144 million, respectively. The cash dividend was denominated and declared in RMB and paid to the holders of A shares in RMB and the holders of H shares in Hong Kong dollars.

The Company distributed the cash dividend to the holders of A shares and shareholders of Northbound Trading on 6 July 2017. The Company distributed the cash dividend to the holders of H shares and shareholders of Southbound Trading on 28 July 2017. For details, please refer to the announcements of the Company dated 16 June 2017 and 29 June 2017 on the HKEXnews website of the SEHK and the website of the SSE, respectively.

II. Interim Profit Distribution Plan for 2017

The net profit of the Company for the first half of 2017 was RMB27,526 million. In accordance with the authorization in respect of the interim profit distribution for 2017 obtained at the 2016 annual general meeting, the Board has approved the Interim Profit Distribution Plan for 2017 as follows:

10% of the total net profit of the Company for the first half of 2017 amounting to RMB2,753 million was allocated to the statutory surplus reserve. A general provision for risks of RMB109 million was made at a rate of 1.5% of the balance of the risky assets as at the end of June 2017. The final dividends reserved for the preference shares, which shall be declared by the Board before the dividend payment date of the preference shares, amounted to USD71 million (temporarily equivalent to RMB483 million based on the prevailing exchange rate of RMB against US dollar published by the PBOC on 30 June 2017). As at the end of the Reporting Period, the profits distributable to ordinary shareholders of the Company was RMB144,661 million.

According to relevant provisions of the Articles of Association in respect of profit distribution, having considered factors including the capital adequacy ratio requirements by the regulatory authorities and the sustainable business development of the Company, the Company plans to distribute cash dividends of RMB1.20 (tax inclusive) for every 10 shares to the holders of A shares and the holders of H shares registered in the Company's register of members on the record date. Based on 36,485 million shares of the Company in issue as at 30 June 2017, the total cash dividend was approximately RMB4,378 million.

Report of the Board of Directors

The cash dividend is currently expected to be distributed to the holders of H shares by no later than Friday, 27 October 2017. The actual amount of cash dividends to be paid will be based on the total number of shares recorded in the Company's register of members on the record date. Details of the distribution of interim dividend to the shareholders and the related matters will be duly announced.

The cash dividend will be denominated and declared in RMB and will be paid in RMB to the holders of A shares and in Hong Kong dollars to holders of H shares. The actual amount of dividends to be paid in Hong Kong dollars shall be determined based on the benchmark exchange rate of RMB against Hong Kong dollars (RMB0.84823 in exchange for HKD1.00) on 28 August 2017, the date of the meeting of the Board on which the distribution of interim dividend for 2017 is declared, as announced by the PBOC, representing cash dividends of HKD0.14147106 per H share (tax inclusive).

The formulation and implementation of the Company's cash dividend policy are in compliance with the stipulations of the Articles of Association and the requirements stated in the resolutions approved by the general meetings of the Company. The basis and proportion of dividend distribution are clearly specified. Effective determination and approval procedures and mechanisms are in place. The said distribution has been considered and approved by the Independent Non-executive Directors, namely Cheng Hoi-chuen, Liu Jipeng, Li Hancheng, Xie Zhichun, Peng Xuefeng and Liu Ningyu. The resolution on the authorization for interim profit distribution for 2017 has been approved by the 2016 annual general meeting of the Company and the legitimate rights and interests of minority shareholders have been well protected.

Taxation

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the implementation regulations thereof (the "EIT Law"), the tax rate of the enterprise income tax applicable to the income of a non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organisations or entities, shall be deemed as shares held by non-resident enterprise shareholders (as defined under the EIT Law). The Company will distribute the dividend to those non-resident enterprise shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise (as defined under the EIT Law) which has been legally incorporated in the PRC or which was established pursuant to the laws of foreign countries (regions) but has established effective administrative entities in the PRC, and whose name appears on the Company's

Report of the Board of Directors

H share register should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a qualified PRC lawyer (with the official chop of the law firm issuing the opinion affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Concerning Individual Income Tax Collection after the Abolishment of Guoshuifa (1993) No. 045 Document (《關於國稅發(1993)045號文件廢止後有關個人所得稅徵管問題的通知》) (the "Notice") issued by the State Administration of Taxation on 28 June 2011, the dividend to be distributed by domestic non-foreign invested enterprises which have issued shares in Hong Kong to overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general.

However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% individual income tax will be withheld from the dividend payable to any individual holders of H shares whose names appear on the H share register of members of the Company on the record date, unless otherwise stated in the relevant taxation regulations, tax treaties or the Notice.

The Company will not be liable for any claim arising from any delay in, or inaccurate determination of the status of the Shareholders or any disputes over the mechanism of withholding.

Profit Distribution to Investors of Northbound Trading

For investors of the SEHK (including enterprises and individuals) investing in the A shares of the Company listed on the SSE (the "Northbound Trading"), their dividends will be distributed in RMB by the Company through the Shanghai Branch of China Securities Depository and Clearing Corporation Limited to the account of the nominee holding such shares. The Company will withhold and pay income taxes at the rate of 10% on behalf of those investors and will report to the tax authorities for the withholding. For investors of Northbound Trading who are tax residents of other countries and whose countries of domicile are countries which have entered into tax treaties with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authorities for the entitlement of the rate under such tax treaties. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaties will be refunded. The record date and the date of distribution of cash dividends and other arrangements for the investors of Northbound Trading will be the same as those for the holders of A Shares of the Company.

Report of the Board of Directors

Profit Distribution to Investors of Southbound Trading

For investors of SSE (including enterprises and individuals) investing in the H shares of the Company listed on the SEHK (the “Southbound Trading”), the Company has entered into the Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading (《港股通H股股票現金紅利派發協議》) with the Shanghai Branch and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, as the nominee of the holders of H shares for Southbound Trading, will receive all cash dividends distributed by the Company and distribute the cash dividends to the relevant investors of H shares of Southbound Trading through their depository and clearing systems. The cash dividends for the investors of H shares of Southbound Trading will be paid in RMB. The record date and the date of distribution of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H shares of the Company. Relevant tax policies are as follows:

- Shanghai-Hong Kong Stock Connect: Pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Caishui [2014] No. 81), (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知(財稅[2014]81號)》), for dividends received by domestic individual investors from investing in H shares listed on the SEHK through Shanghai-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in H shares listed on the SEHK through Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.
- Shenzhen-Hong Kong Stock Connect: Pursuant to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Caishui [2016] No.127), (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知(財稅[2016]127號)》), for dividends received by domestic individual investors from investing in H shares listed on the SEHK through Shenzhen-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in H shares listed on the SEHK through Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

Shareholders of the Company are suggested to consult their tax consultants regarding the tax impacts in China, Hong Kong and other countries (regions) for holding and selling the Company's shares.

Report of the Board of Directors

III. Equity Interests of the Company in Other Listed Companies and Financial Enterprises

Please see “Major Equity Investments” in Section (VII) “IX. Performance of Key Business Lines” in “Discussion and Analysis on Business Operation”.

IV. Securities Transactions by Directors, Supervisors and Relevant Employees

The Company has adopted its own code of conduct regarding Directors’ and Supervisors’ dealings in the securities on terms no less exacting than the Model Code. The Company has made specific enquiries to all Directors and Supervisors to confirm that their actions and behaviours have been in line with the Model Code during the Reporting Period. The Company has also formulated guidelines on dealings in securities of the Company by relevant employees, which are no less strict than the Model Code. The Company is not aware of any non-compliance with these guidelines by the relevant employees.

V. Interests of the Directors, Supervisors and Chief Executives in the Securities of the Company or its Associated Corporations under Hong Kong Laws and Regulations

(I) As at 30 June 2017, the following Directors/Supervisor of the Company had the following interests 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 and as the Company is aware of:

Name	Position	Class of shares	Long/short position	Capacity	Number of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued ordinary shares (%)
Liu Yonghao	Non-executive Director	A	Long position	Interest held by his controlled corporation(s)	1,608,929,324	1	5.44	4.41
Zhang Hongwei	Non-executive Director	A	Long position	Interest held by his controlled corporation(s)	1,066,764,269	2	3.61	2.92
Lu Zhiqiang	Non-executive Director	A	Long position	Interest held by his controlled corporation(s)	1,682,652,182	3	5.69	4.61
		H	Long position	Interest held by his controlled corporation(s)	510,448,725	4	7.36	1.40
Shi Yuzhu	Non-executive Director	A	Long position	Interest held by his controlled corporation(s)	1,149,732,989	5	3.89	3.15
Wang Jiazhi	Employee Supervisor	A	Long position	Beneficial owner	759,720		0.003	0.002

Report of the Board of Directors

Notes:

- The 1,608,929,324 A shares comprised 85,323,189 A shares directly held by South Hope Industrial Co., Ltd. and 1,523,606,135 A shares directly held by New Hope Liuhe Investment Co., Ltd. 51% of the issued share capital of South Hope Industrial Co., Ltd. was held by New Hope Group Co., Ltd., while New Hope Liuhe Investment Co., Ltd. was held as to 25% and 75% of its issued share capital by New Hope Group Co., Ltd. and New Hope Liuhe Co., Ltd., respectively. 23.98% and 29.41% of the issued share capital of New Hope Liuhe Co., Ltd. were held by New Hope Group Co., Ltd. and South Hope Industrial Co., Ltd., respectively. According to the SFO, New Hope Group Co., Ltd. was deemed to be interested in the 85,323,189 A shares held by South Hope Industrial Co., Ltd. and 1,523,606,135 A shares held by New Hope Liuhe Investment Co., Ltd.

As Mr. Liu Yonghao held 62.34% of the issued share capital of New Hope Group Co., Ltd., Mr. Liu Yonghao was deemed to be interested in the 1,608,929,324 A shares held by New Hope Group Co., Ltd. according to the SFO. Such interests held by Mr. Liu Yonghao and the interests held by New Hope Group Co., Ltd., Ms. Li Wei and Ms. Liu Chang, the details of which are disclosed in the section headed "Substantial Shareholders' and Other Persons' Interests or Short Positions in the Shares and Underlying Shares of the Company under Hong Kong Laws and Regulations" in this Interim Report, were the same block of shares.

- The 1,066,764,269 A shares were directly held by Orient Group Incorporation. 16.39%, 11.87% and 0.3% of the issued share capital of Orient Group Incorporation were held by Tibet Orient Runlan Investment Co., Ltd. (西藏東方潤瀾投資有限公司), Orient Group Investment Holding Co., Ltd. and Mr. Zhang Hongwei, respectively. Tibet Orient Runlan Investment Co., Ltd. (西藏東方潤瀾投資有限公司) was wholly-owned by Orient Group Investment Holding Co., Ltd. Mr. Zhang Hongwei indirectly held 94% of the issued share capital of Orient Group Investment Holding Co., Ltd. As disclosed in the section headed "Substantial Shareholders' and Other Persons' Interests or Short Positions in the Shares and Underlying Shares of the Company under Hong Kong Laws and Regulations" in this Interim Report, Orient Group Incorporation is a party to the acting in concert agreement.
- The 1,682,652,182 A shares were held by China Oceanwide Holdings Group Co., Ltd., of which 98% of the issued share capital was held by Oceanwide Group Co., Ltd., which was wholly owned by Tohigh Holdings Co., Ltd. Mr. Lu Zhiqiang held 77.14% of the issued share capital of Tohigh Holdings Co., Ltd.
- The 510,448,725 H shares (Long position) comprised 6,864,600 H shares directly held by China Oceanwide International Investment Company Limited and 503,584,125 H shares directly held by Oceanwide International Equity Investment Limited. 98.67% of the issued share capital of Oceanwide International Equity Investment Limited was indirectly held by Oceanwide Holdings Co., Ltd. All of the issued share capital of China Oceanwide International Investment Company Limited and 66.59% of the issued share capital of Oceanwide Holdings Co., Ltd. were held by China Oceanwide Holdings Group Co., Ltd. (see note 3 above).
- The 1,149,732,989 A shares were held by Shanghai Giant Lifetech Co., Ltd. 90.49% of the issued share capital of Shanghai Giant Lifetech Co., Ltd. was held by Giant Investment Co., Ltd., of which 97.86% of the issued share capital was held by Mr. Shi Yuzhu.

(II) As at 30 June 2017, the following Director of the Company had the following interests in Pengzhou Minsheng Rural Bank Co., Ltd., a subsidiary of the Company:

Name	Position	Long/short position	Capacity	Interest in the registered capital	Note	Percentage of the total registered capital (%)
Liu Yonghao	Non-executive Director	Long position	Interest held by his controlled corporation(s)	RMB2,000,000	1	3.64

Note:

- New Hope Group Co., Ltd. is interested in RMB2,000,000 of the registered capital of Pengzhou Minsheng Rural Bank Co., Ltd. As Mr. Liu Yonghao held 62.34% of the issued share capital of New Hope Group Co., Ltd., Mr. Liu Yonghao was deemed to be interested in the equity interest held by New Hope Group Co., Ltd. in Pengzhou Minsheng Rural Bank Co., Ltd. according to the SFO.

Report of the Board of Directors

(III) As at 30 June 2017, the following Director of the Company had the following interests in Shanghai Songjiang Minsheng Rural Bank Co., Ltd., a subsidiary of the Company:

Name	Position	Long/short position	Capacity	Interest in the registered capital	Note	Percentage of the total registered capital (%)
Shi Yuzhu	Non-executive Director	Long position	Interest held by his controlled corporation(s)	RMB24,000,000	1	10

Note:

- Shanghai Giant Lifetech Co., Ltd. is interested in RMB24,000,000 of the registered capital of Shanghai Songjiang Minsheng Rural Bank Co., Ltd. 90.49% of the issued share capital of Shanghai Giant Lifetech Co., Ltd. was held by Giant Investment Co., Ltd., of which 97.86% of the issued share capital was held by Mr. Shi Yuzhu. Mr. Shi Yuzhu was deemed to be interested in the equity interest held by Shanghai Giant Lifetech Co., Ltd. in Shanghai Songjiang Minsheng Rural Bank Co., Ltd. according to the SFO.

(IV) As at 30 June 2017, the following Director of the Company had the following interests in Tibet Linzhi Minsheng Rural Bank Co., Ltd., a subsidiary of the Company:

Name	Position	Long/short position	Capacity	Interest in the registered capital	Note	Percentage of the total registered capital (%)
Shi Yuzhu	Non-executive Director	Long position	Interest held by his controlled corporation(s)	RMB2,500,000	1	10

Note:

- Shanghai Giant Lifetech Co., Ltd. is interested in RMB2,500,000 of the registered capital of Tibet Linzhi Minsheng Rural Bank Co., Ltd. 90.49% of the issued share capital of Shanghai Giant Lifetech Co., Ltd. was held by Giant Investment Co., Ltd., of which 97.86% of the issued share capital was held by Mr. Shi Yuzhu. Mr. Shi Yuzhu was deemed to be interested in the equity interest held by Shanghai Giant Lifetech Co., Ltd. in Tibet Linzhi Minsheng Rural Bank Co., Ltd. according to the SFO.

Save as disclosed above, as at 30 June 2017, none of the Directors, Supervisors or chief executives held or was deemed to hold any interests and/or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were recorded in the register required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, nor had they been granted such rights.

Report of the Board of Directors

VI. Protection of Rights and Interests of Consumers

During the Reporting Period, the Strategic Development and Investment Management Committee under the Board of the Company considered the Summary of Protection of Rights and Interests of Consumers in 2016 and special report on the Plan for Protection of Rights and Interests of Consumers for 2017 prepared by the management team. It instructed the management team to duly protect the rights and interests of consumers so as to ensure the effective operation of the mechanism of protection of rights and interests of consumers of the Company.

Under the guideline of serving the people and working for the well-being of the people, the Consumer Protection Committee of the Company promoted the protection of rights and interests of consumers in an orderly manner. Firstly, it strengthened the fundamental management by formulating work systems and plans. The Consumer Protection Committee facilitated the construction of its organizational structure so as to duly perform its functions of examination, supervision and guidance and improve the internal appraisal system. Secondly, more efforts were made in risk management and control. Inspections were conducted in online information security and the working system and mechanism of protection of rights and interests of consumers. Measures were taken to rectify potential risks and problems identified in management and further enhance the protection of individual information safety of financial consumers. Thirdly, it organized a series of distinctive education campaigns for the public named “Minsheng Campaign for Consumer Protection (民生消保在行動)”, which also improved the professionalism of the consumer protection team.

Major Events

I. Material Litigation and Arbitration Proceedings

During the Reporting Period, the Company had no litigation or arbitration proceedings that had significant impact on its operations. As of the end of the Reporting Period, there were 16,628 outstanding litigations with disputed amount of over RMB1 million involving the Company as plaintiff for approximately RMB97,792.6877 million and 422 outstanding litigations involving the Company as defendant for approximately RMB6,147.59 million.

II. Purchase and Disposal of Assets and Mergers and Acquisitions

The Company has strictly complied with regulations and stipulations including the Articles of Association, the Basic Accounting Rules (《基本財務規則》) and the Administrative Measures for Fixed Assets (《固定資產管理辦法》). The Company has made accounting arrangements for writing off the residual value of fixed assets which were qualified for disposal. The shareholders' interest has not been prejudiced and the Company has not experienced any loss of assets.

III. Material Contracts and Their Performances

The Company participated in and won the bid for the land use right of Plot Z4 at Core Area of Beijing CBD in East Third Ring Road, Chaoyang District, Beijing. As the date of land delivery and overall design proposal for the core area remain uncertain, the Company is preparing for the application formalities of the preliminary construction of the project;

The Company participated in and won the bid for the land use right of Plot 2010P26 at the intersection of Douzaiwei Road and Hubin South Road in Xiamen. The construction and construction plan of the project have passed the completion inspections. Payment of land premium for the area exceeding the plot ratio is being arranged. It is expected that all renovation works will be completed by August 2017. Settlement for construction works completed is still in progress;

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot 2012-8 in the north of Headquarters Economic Zone in Donghai Sub-district, Quanzhou. Inspection of potential contractors of curtain wall and invitation for submission of tender are scheduled in July 2017. Furnishing design of the project, including the layout design of safe deposit box, archives room, kitchen equipment, furniture and engine room, will be completed around July to October 2017. The tender for the installation of elevators and central air conditioning systems will be completed around July to December 2017. Construction of the podium building will be completed by the end of 2017;

Major Events

The Company participated in and won the bid for the land use right of Plot G at the Strait Financial Business District on the south of Aofeng Road and the east of Aofeng Side road in Taijiang District, Fuzhou. Currently, the land has not been delivered to the Company;

The inspection and acceptance of the construction of Shunyi Headquarter Base in Beijing were completed and the base has been put into operation. The settlement and audit have been completed;

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot Zheng Zheng Dong Chu (2013) No. 4 in the south of Baifo Road and the east of Xuzhuang Street in Zhengdong New District, Zhengzhou, and has completed the excavation and pile foundation construction. The construction is currently suspended. The design has been modified and the investment budget has been approved by the Board;

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot Zheng Zheng Dong Chu (2014) No. 1 in the west of East Fourth Ring Road and the south of Lianhu Road in Zhengdong New District, Zhengzhou. Currently, the project is in the progress of plan designing;

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot Zheng Zheng Dong Chu (2014) No. 3 in the south of Shangding Road and the west of Mingli Road in Zhengdong New District, Zhengzhou. Currently, the project is in the progress of plan designing.

IV. Major Guarantees

During the Reporting Period, no major guarantees were required to be disclosed except for the financial guarantees provided within the scope of business operation as approved by the PBOC.

V. Commitments of the Company

During the Reporting Period, the Company had no commitment requiring disclosure.

VI. Repurchase, Sale or Redemption of Securities

During the Reporting Period, the Group has neither sold any securities of the Company nor purchased or redeemed any securities of the Company.

Major Events

VII. Audit Committee

As at the end of the Reporting Period, the members of the Audit Committee of the Company included Liu Ningyu (chairman), Tian Zhiping, Weng Zhenjie, Cheng Hoi-chuen and Peng Xuefeng. On 20 February 2017, the Resolution regarding the Composition of Special Committees of the Seventh Session of the Board (《關於第七屆董事會專門委員會組成成員的決議》) was considered and approved at the first meeting of the seventh session of the Board, pursuant to which, Liu Ningyu shall act as the chairman and Tian Zhiping, Weng Zhenjie, Cheng Hoi-chuen and Peng Xuefeng shall act as the members of the Audit Committee of the Company. The main responsibilities of the Audit Committee include reviewing and supervising the financial reporting procedures and the internal control system of the Company, as well as providing opinions to the Board. The Audit Committee of the Company has reviewed and confirmed the 2017 Interim Report and the Interim Results Announcement for the six months ended 30 June 2017.

VIII. Appointment and Removal of Accounting Firms

The 2016 annual general meeting of the Company resolved to engage KPMG Huazhen LLP and KPMG Certified Public Accountants as the domestic and international auditors of the Company for 2017, respectively. According to the terms of contracts, the total remuneration agreed between the Company and the above auditors in respect of their audit services for the year, including the auditing of the 2017 financial statements, the review of the 2017 interim financial statements and the auditing of internal control for 2017, was RMB10.60 million, including fees for internal control auditing of RMB1.10 million.

IX. Major Related Party Transactions

There are no related parties that have controlling interests in the Company.

There was no major related party transaction of the Company. For details of related party transactions under relevant accounting standards as at the end of the Reporting Period, please refer to Note 45 to the Consolidated Financial Statements.

X. Restriction Commitments Regarding the Disposal of Additional Shares of Shareholders Holding 5% or More Interests in the Company

Not applicable.

XI. Penalties Imposed on the Company and Directors, Supervisors and Senior Management of the Company

During the Reporting Period, the Company is not aware of any penalty against the Company and Directors, Supervisors and Senior Management of the Company which has a significant impact on the operation of the Company.

Major Events

XII. Incentive Share Option Scheme and Its Implementation during the Reporting Period

The employee share ownership scheme was considered and approved at the 21st meeting of the sixth session of the Board. As of the end of the Reporting Period, the employee share ownership scheme of the Company has not been implemented.

XIII. Other Major Events

Pursuant to the approvals by the CBRC and the PBOC, the Company successfully issued financial bonds with an aggregate amount of RMB30 billion in the national interbank bond market. For details, please refer to the announcement dated 9 March 2017 published on the website of the Company (www.cmbc.com.cn) and the HKEXnews website of the SEHK (www.hkexnews.hk).

The Company received the Approval on the Operation of Haikou Branch of China Minsheng Bank (Qiong Yin Jian Fu [2017] No. 41) (《關於中國民生銀行海口分行開業的批覆》(瓊銀監覆[2017] 41號)) from Haikou Branch of the CBRC, the operation of Haikou Branch of the Company was approved. For details, please refer to the announcement dated 26 April 2017 published on the website of the Company (www.cmbc.com.cn) and the HKEXnews website of the SEHK (www.hkexnews.hk).

The Hong Kong Branch of the Company has applied to the SEHK for the listing of the USD5,000,000,000 medium term note programme. For details, please refer to the announcement dated 27 April 2017 published on the website of the Company (www.cmbc.com.cn) and the HKEXnews website of the SEHK (www.hkexnews.hk).

The Hong Kong Branch of the Company has applied to the SEHK for, and the SEHK has approved, the listing of USD500,000,000 2.50% notes due 2020. For details, please refer to the announcement dated 5 May 2017 published on the website of the Company (www.cmbc.com.cn) and the HKEXnews website of the SEHK (www.hkexnews.hk).

The Company obtained the approvals from the CBRC (Yin Jian Fu [2017] No. 178) and the PBOC (Yin Shi Chang Xu Zhun Yu Zi [2017] No. 140) for the issuance of tier-2 capital bonds with an aggregate amount up to RMB30 billion. For details, please refer to the announcements dated 9 June 2017 and 30 August 2017, respectively, published on the website of the Company (www.cmbc.com.cn) and the HKEXnews website of the SEHK (www.hkexnews.hk).

Financial Reports

- I. Independent Review Report
- II. Financial Statements (Consolidated Statement of Profit or Loss, Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows)
- III. Notes to the Unaudited Interim Financial Information
- IV. Unaudited Supplementary Financial Information

Report on the Review of Interim Financial Information



Independent review report to the shareholders of China Minsheng Banking Corp., Ltd.

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

Introduction

We have reviewed the interim financial information of China Minsheng Banking Corp., Ltd. (the “Bank”) and its subsidiaries (collectively the “Group”) set out on pages 127 to 237 which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the six month period then ended and 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*”. The directors are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on this interim financial information 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*”. A review of interim financial information 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.

Report on the Review of Interim Financial Information (Continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standards 34 “Interim Financial Reporting”.

The logo for KPMG, consisting of the letters 'KPMG' in a stylized, handwritten font.

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

28 August 2017

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2017 (unaudited)	2016 (unaudited)
Interest income		113,133	98,050
Interest expense		(72,018)	(50,612)
Net interest income	5	41,115	47,438
Fee and commission income		27,375	29,787
Fee and commission expense		(2,898)	(1,728)
Net fee and commission income	6	24,477	28,059
Net trading gain	7	1,426	59
Net gain arising from disposals of securities and discounted bills	8	1,685	978
Impairment losses on assets	9	(17,139)	(20,762)
Operating expenses	10	(18,314)	(21,446)
Other operating income		1,201	855
Profit before income tax		34,451	35,181
Income tax expense	11	(5,837)	(7,479)
Net profit		28,614	27,702
Net profit attributable to:			
Equity shareholders of the Bank		28,088	27,223
Non-controlling interests		526	479
		28,614	27,702
Earnings per share (expressed in RMB)	12		
Basic earnings per share		0.77	0.75
Diluted earnings per share		0.77	0.75

The notes on pages 135 to 237 form part of these financial statements.

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	
	2017 (unaudited)	2016 (unaudited)
Net profit	28,614	27,702
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Change in fair value of available-for-sale securities	(733)	(1,168)
Transfer to profit or loss	(547)	(407)
Less: Income tax relating to available-for-sale securities	317	394
Effective hedging portion of gains or losses arising from cash flow hedging instruments	953	—
Less: Income tax relating to hedging instruments	(238)	—
Exchange difference on translating foreign operations	(249)	113
Other comprehensive income, net of tax	(497)	(1,068)
Total comprehensive income	28,117	26,634
Total comprehensive income attributable to:		
Equity shareholders of the Bank	27,626	26,130
Non-controlling interests	491	504
	28,117	26,634

The notes on pages 135 to 237 form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
ASSETS			
Cash and balances with central bank	13	424,669	524,239
Balances with banks and other financial institutions	14	138,650	188,414
Precious metals		24,406	22,880
Financial assets at fair value through profit or loss	15	66,576	89,740
Positive fair value of derivatives	16	9,722	7,843
Placements with banks and other financial institutions	17	148,257	182,877
Financial assets held under resale agreements	18	20,512	90,546
Loans and advances to customers	19	2,636,361	2,397,192
Investment securities:			
— Available-for-sale securities	20	311,700	307,078
— Held-to-maturity securities	20	663,652	661,362
— Loans and receivables	20	1,019,404	1,148,729
Long-term receivables	21	109,103	94,791
Property and equipment	22	45,811	46,190
Deferred income tax assets	23	24,908	23,366
Investments in associates		17	25
Other assets	25	123,461	110,605
Total assets		5,767,209	5,895,877
LIABILITIES			
Borrowings from central bank		324,468	315,438
Deposits from customers	26	3,023,127	3,082,242
Deposits and placements from banks and other financial institutions	27	1,172,744	1,408,019
Financial liabilities at fair value through profit or loss		627	868
Negative fair value of derivatives	16	9,788	10,277
Financial assets sold under repurchase agreements	28	90,528	113,255
Borrowings from banks and other financial institutions	29	140,366	122,474
Provisions		922	1,075
Debt securities issued	30	529,751	398,376
Current income tax liabilities		8,862	8,313
Other liabilities	31	91,504	83,513
Total liabilities		5,392,687	5,543,850

The notes on pages 135 to 237 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

As at 30 June 2017

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	30 June 2017 (unaudited)	31 December 2016 (audited)
EQUITY			
Share capital	32	36,485	36,485
Other equity instrument			
Including: preference shares	33	9,892	9,892
Reserves			
Capital reserve	32	64,744	64,744
Surplus reserve	34	32,805	30,052
General reserve	34	73,070	72,929
Other reserves		(2,604)	(2,142)
Retained earnings	34	149,803	130,630
Total equity attributable to equity shareholders of the Bank		364,195	342,590
Non-controlling interests	35	10,327	9,437
Total equity		374,522	352,027
Total liabilities and equity		5,767,209	5,895,877

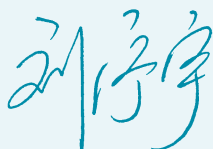
Approved and authorised for issue by the Board of Directors on 28 August 2017.



Hong Qi
Chairman



Zheng Wanchun
Director and president



Liu Ningyu
Director



(Company Seal)

The notes on pages 135 to 237 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017
(Expressed in millions of Renminbi, unless otherwise stated)

Unaudited	Attributable to equity shareholders of the Bank												Total equity	
	Note	Share capital 32	Other equity instrument 33	Reserves							Retained earnings 34	Non-controlling interests 35		
				Capital reserve 32	Surplus reserve 34	General reserve 34	Investment		Cash flow					
							revaluation reserve 37	Exchange reserve	Hedging reserve 37	Subtotal				
At 1 January 2017		36,485	9,892	64,744	30,052	72,929	(1,834)	413	(721)	165,583	130,630	342,590	9,437	352,027
Net profit		-	-	-	-	-	-	-	-	-	28,088	28,088	526	28,614
Other comprehensive income, net of tax		-	-	-	-	-	(998)	(179)	715	(462)	-	(462)	(35)	(497)
Total comprehensive income		-	-	-	-	-	(998)	(179)	715	(462)	28,088	27,626	491	28,117
Appropriation to surplus reserve	34	-	-	-	2,753	-	-	-	-	2,753	(2,753)	-	-	-
Appropriation to general reserve	34	-	-	-	-	141	-	-	-	141	(141)	-	-	-
Cash dividends	36	-	-	-	-	-	-	-	-	-	(6,020)	(6,020)	(15)	(6,035)
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	415	415
Equity transactions with non-controlling interests		-	-	-	-	-	-	-	-	-	(1)	(1)	(1)	(2)
At 30 June 2017		36,485	9,892	64,744	32,805	73,070	(2,832)	234	(6)	168,015	149,803	364,195	10,327	374,522

The notes on pages 135 to 237 form part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2017
(Expressed in millions of Renminbi, unless otherwise stated)

Unaudited	Attributable to equity shareholders of the Bank												Non-controlling interests	Total equity
	Note	Share capital	Other equity instrument	Reserves						Retained earnings	Total			
				Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Exchange reserve	Cash flow Hedging reserve					
												Subtotal		
32	33	32	34	34	37	37	34	35						
At 1 January 2016		36,485	—	64,744	25,361	56,351	1,291	160	—	147,907	116,826	301,218	8,565	309,783
Net profit		—	—	—	—	—	—	—	—	—	27,223	27,223	479	27,702
Other comprehensive income, net of tax		—	—	—	—	—	(1,150)	57	—	(1,093)	—	(1,093)	25	(1,068)
Total comprehensive income		—	—	—	—	—	(1,150)	57	—	(1,093)	27,223	26,130	504	26,634
Capital injection by non-controlling shareholders		—	—	—	—	—	—	—	—	—	—	—	20	20
Appropriation to surplus reserve	34	—	—	—	2,684	—	—	—	—	2,684	(2,684)	—	—	—
Appropriation to general reserve	34	—	—	—	—	8,092	—	—	—	8,092	(8,092)	—	—	—
Cash dividends	36	—	—	—	—	—	—	—	—	—	(8,574)	(8,574)	(208)	(8,782)
At 30 June 2016		36,485	—	64,744	28,045	64,443	141	217	—	157,590	124,699	318,774	8,881	327,655
At 1 July 2016		36,485	—	64,744	28,045	64,443	141	217	—	157,590	124,699	318,774	8,881	327,655
Net profit		—	—	—	—	—	—	—	—	—	20,620	20,620	456	21,076
Other comprehensive income, net of tax		—	—	—	—	—	(1,975)	196	(721)	(2,500)	—	(2,500)	83	(2,417)
Total comprehensive income		—	—	—	—	—	(1,975)	196	(721)	(2,500)	20,620	18,120	539	18,659
Capital injection by other equity holders		—	9,892	—	—	—	—	—	—	—	—	9,892	—	9,892
Appropriation to surplus reserve	34	—	—	—	2,007	—	—	—	—	2,007	(2,007)	—	—	—
Appropriation to general reserve	34	—	—	—	—	8,486	—	—	—	8,486	(8,486)	—	—	—
Cash dividends	36	—	—	—	—	—	—	—	—	—	(4,196)	(4,196)	17	(4,179)
At 31 December 2016		36,485	9,892	64,744	30,052	72,929	(1,834)	413	(721)	165,583	130,630	342,590	9,437	352,027

The notes on pages 135 to 237 form part of these financial statements.

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 (unaudited)	2016 (unaudited)
Cash flows generated from operating activities:		
Profit before income tax	34,451	35,181
<i>Adjustments for:</i>		
– Impairment losses on assets	17,139	20,762
– Depreciation and amortisation	2,363	2,223
– Changes in provisions	(153)	(792)
– Losses/(gains) on disposal of property and equipment and other long-term assets	35	(46)
– (Gains)/losses from changes in fair value	(1,177)	3,188
– Net gains on disposal of investment securities	(1,554)	(656)
– Interest expense on debt securities issued	8,575	3,974
– Interest income from investment securities	(38,075)	(20,751)
	21,604	43,083
<i>Changes in operating assets:</i>		
Net decrease/(increase) in balances with central bank, banks and other financial institutions	68,720	(70,931)
Net decrease in placements with banks and other financial institutions	26,895	111,649
Net decrease in financial assets held under resale agreements	69,930	255,829
Net increase in loans and advances to customers	(254,099)	(240,719)
Net increase in other operating assets	(4,390)	(17,757)
	(92,944)	38,071
<i>Changes in operating liabilities:</i>		
Net (decrease)/increase in deposits from customers	(59,115)	202,371
Net (decrease)/increase in deposits and placements from banks and other financial institutions	(235,275)	261,687
Net (decrease)/increase in financial assets sold under repurchase agreements	(22,847)	29,318
Income tax paid	(6,787)	(10,387)
Net increase in borrowings from central bank	9,030	152,926
Net increase in other operating liabilities	18,321	11,494
	(296,673)	647,409
Net cash (used)/generated from operating activities	(368,013)	728,563

The notes on pages 135 to 237 form part of these financial statements.

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2017 (unaudited)	2016 (unaudited)
Cash flows from investing activities:			
Proceeds from sale and redemption of investments		1,377,073	693,726
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		865	1,169
Net payments for acquisition of subsidiaries and other business units		330	—
Cash payment for purchase of investment securities		(1,217,469)	(1,350,899)
Cash payment for purchase of property and equipment, intangible assets and other long-term assets		(3,800)	(3,048)
Cash payment for investment in associates		—	(13)
Net cash generated/(used) in investing activities		156,999	(659,065)
Cash flows from financing activities:			
Capital contribution from non-controlling interests to subsidiaries		—	20
Proceeds from issue of debt securities		369,364	171,219
Repayment of debt securities issued		(244,620)	(128,859)
Interest paid on debt securities issued		(4,058)	(5,460)
Dividends paid		(5)	(7,600)
Net cash generated from financing activities		120,681	29,320
Net (decrease)/increase in cash and cash equivalents		(90,333)	98,818
Cash and cash equivalents at 1 January		171,303	126,460
Effect of foreign exchange rate changes		2,013	1,337
Cash and cash equivalents at 30 June	38	82,983	226,615

The notes on pages 135 to 237 form part of these financial statements.

Notes to the Unaudited Interim Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

1 General information

China Minsheng Banking Corp., Ltd. (the “Bank”) is a national joint-stock commercial bank established in the People’s Republic of China (“PRC”) on 7 February 1996 with the approval of the State Council of the PRC and the People’s Bank of China (“PBOC”).

The Bank obtained the financial service certificate No. B0009H111000001 as approved by the China Banking Regulatory Commission (“CBRC”), and the business licence as approved by the Beijing Administration for Industry and Commerce, the uniform social credit code is No. 91110000100018988F.

The Bank’s A Shares and H Shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited and the stock codes are 600016 and 01988, respectively. The offshore preference shares are listed in Hong Kong Stock Exchange of Hong Kong Limited and the stock code is 04609.

For the purpose of these financial statements, mainland China refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC (“Hong Kong”), the Macau Special Administrative Region of the PRC (“Macau”) and Taiwan. Overseas refers to Hong Kong, Macau, Taiwan and other countries and regions.

The Bank and its subsidiaries (collectively the “Group”) mainly provide corporate and personal banking, treasury business, leasing, fund and asset management, investment banking and other financial services in the PRC.

As at 30 June 2017, the Bank had 42 tier-one branches and 32 subsidiaries.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Basis of preparation and accounting policies

This unaudited interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial reporting*, issued by the International Accounting Standards Board (“IASB”).

The unaudited interim financial information has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in *Changes in accounting policies* in note 2.

There is no early adoption of any new IFRSs not yet effective for the six months ended 30 June 2017.

The preparation of an interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense on a year to date basis. Actual results may differ from these estimates.

The interim financial information is unaudited, but has been reviewed by KPMG 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.

The financial information relating to the financial year ended 31 December 2016 that is included in the unaudited interim financial information as being previously reported information does not constitute the Group’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Bank’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2017.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

2 Basis of preparation and accounting policies (continued)

Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the group. Of these, the following amendments are relevant to the group:

- Annual Improvements to IFRSs 2014–2016 Cycle
- Amendments to IAS 12, Income taxes “Recognition of deferred taxes assets for unrealised losses

The principal effects of adopting these amended IFRSs are as follows:

Annual Improvements to IFRSs 2014–2016 Cycle

The 2014–2016 cycle of annual improvement contains amendments to three standards, of which only IFRS 12 Disclosure of Interests in Other Entities is first effective for the current accounting period of the group.

Amendments to IAS 12, Income taxes “Recognition of deferred taxes assets for unrealised losses

These amendments clarify the requirements on recognition of deferred tax assets related to debt instruments measured at fair value.

The adoption of the above standards does not have any material impact on the financial position and the financial result of the Group.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management**(1) Credit risk****(i) Maximum credit risk exposure**

The following table presents the Group's maximum exposure to credit risk as at the end of the reporting period without considering any collateral held or other credit enhancements, which is represented by the carrying amount of each type of financial assets after deducting any impairment allowance.

	30 June 2017	31 December 2016
Balances with central bank	417,894	515,253
Balances with banks and other financial institutions	138,650	188,414
Financial assets at fair value through profit or loss		
— Debt securities	60,091	75,596
Positive fair value of derivatives	9,722	7,843
Placements with banks and other financial institutions	148,257	182,877
Financial assets held under resale agreements	20,512	90,546
Loans and advances to customers		
— Corporate loans and advances	1,642,089	1,521,076
— Personal loans and advances	994,272	876,116
Investment securities		
— Debt securities	1,947,870	2,094,674
Long-term receivables	109,103	94,791
Other financial assets	100,198	86,769
Total	5,588,658	5,733,955
Off-balance sheet credit commitments	898,809	998,270
Maximum credit risk exposure	6,487,467	6,732,225

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(1) Credit risk (continued)****(ii) Loans and advances to customers**

	30 June 2017	31 December 2016
Gross balance of loans and advances to customers		
Neither past due nor impaired	2,612,547	2,374,632
Past due but not impaired	48,137	45,519
Impaired	45,610	41,435
	2,706,294	2,461,586
Less: allowance for impairment loss		
Neither past due nor impaired	(37,212)	(34,323)
Past due but not impaired	(6,132)	(5,914)
Impaired	(26,589)	(24,157)
	(69,933)	(64,394)
Net balance		
Neither past due nor impaired	2,575,335	2,340,309
Past due but not impaired	42,005	39,605
Impaired	19,021	17,278
	2,636,361	2,397,192

a Neither past due nor impaired

Credit risk of loans and advances to customers neither past due nor impaired was analysed as follows:

	30 June 2017	31 December 2016
Corporate loans and advances	1,624,917	1,506,023
Personal loans and advances	987,630	868,609
Total	2,612,547	2,374,632

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(1) Credit risk (continued)****(ii) Loans and advances to customers (continued)****a Neither past due nor impaired (continued)**

Loans and advances to customers neither past due nor impaired were analysed by types of collateral as follows:

	30 June 2017	31 December 2016
Unsecured loans	596,210	482,196
Guaranteed loans	601,738	590,411
Loans secured by		
— Tangible assets other than monetary assets	1,048,904	945,956
— Monetary assets	365,695	356,069
Total	2,612,547	2,374,632

b Past due but not impaired

At the inception of loan drawdown, the Group requires independent asset valuation agencies to perform valuation assessments of the corresponding collateral. When there is evidence that indicates the collateral is impaired, the Group will review whether the collateral is sufficient to cover the credit risk of the corresponding loans.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(1) Credit risk (continued)****(ii) Loans and advances to customers (continued)****b Past due but not impaired (continued)**

The following table presents the aging analysis of each type of loans and advances to customers of the Group which were past due but not impaired as at the end of the reporting period.

	30 June 2017				Total
	Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days	
Corporate loans and advances	8,294	3,281	3,815	21,070	36,460
Personal loans and advances	4,583	2,420	3,273	1,401	11,677
Total	12,877	5,701	7,088	22,471	48,137

	31 December 2016				Total
	Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days	
Corporate loans and advances	6,161	2,266	2,819	21,197	32,443
Personal loans and advances	4,653	3,008	3,698	1,717	13,076
Total	10,814	5,274	6,517	22,914	45,519

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(1) Credit risk (continued)****(ii) Loans and advances to customers (continued)****c Impaired loans**

	30 June 2017	31 December 2016
Corporate loans and advances	25,167	22,198
Personal loans and advances	20,443	19,237
Total	45,610	41,435
% of total loans and advances	1.69%	1.68%
Allowance for impairment losses		
— Corporate loans and advances	(13,346)	(11,142)
— Personal loans and advances	(13,243)	(13,015)
Total	(26,589)	(24,157)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(1) Credit risk (continued)****(ii) Loans and advances to customers (continued)****c Impaired loans (continued)**

Impaired loans and advances by type of collateral:

	30 June 2017	31 December 2016
Unsecured loans	6,349	6,213
Guaranteed loans	22,811	20,729
Loans secured by		
– Tangible assets other than monetary assets	13,273	11,624
– Monetary assets	3,177	2,869
Total	45,610	41,435
Fair value of collateral held against impaired loans	10,297	9,396

The above collateral mainly includes land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(2) Market risk****(i) Currency risk**

The following tables present the Group's foreign exchange risk exposures as at the end of the reporting period. The carrying values of assets and liabilities denominated in foreign currencies have been converted into RMB.

	30 June 2017				
	RMB	USD	HKD	Others	Total
Assets:					
Cash and balances with central bank	381,284	42,961	205	219	424,669
Balances with banks and other financial institutions	20,849	107,882	5,278	4,641	138,650
Financial assets at fair value through profit or loss	42,497	23,653	426	—	66,576
Placements with banks and other financial institutions	117,664	27,432	1,032	2,129	148,257
Financial assets held under resale agreements	20,512	—	—	—	20,512
Loans and advances to customers	2,461,776	133,410	16,590	24,585	2,636,361
Investment securities	1,901,373	82,530	4,582	6,271	1,994,756
Long-term receivables	86,094	23,009	—	—	109,103
Other assets	186,558	24,775	12,447	4,545	228,325
Total assets	5,218,607	465,652	40,560	42,390	5,767,209
Liabilities:					
Borrowings from central bank	324,468	—	—	—	324,468
Deposits from customers	2,780,851	212,088	20,132	10,056	3,023,127
Deposits and placements from banks and other financial institutions	985,766	151,573	3,680	31,725	1,172,744
Financial assets sold under repurchase agreements	87,985	2,543	—	—	90,528
Borrowings from banks and other financial institutions	90,650	48,629	1,087	—	140,366
Debt securities issued	522,319	7,432	—	—	529,751
Other liabilities	101,397	7,574	1,991	741	111,703
Total liabilities	4,893,436	429,839	26,890	42,522	5,392,687
Net position	325,171	35,813	13,670	(132)	374,522
Foreign currency derivatives	(959)	(1,181)	(543)	—	(2,683)
Off-balance sheet credit commitments	846,389	43,877	4,063	4,480	898,809

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(2) Market risk (continued)****(i) Currency risk (continued)**

	31 December 2016				Total
	RMB	USD	HKD	Others	
Assets:					
Cash and balances with central bank	482,352	41,443	211	233	524,239
Balances with banks and other financial institutions	38,040	146,231	507	3,636	188,414
Financial assets at fair value through profit or loss	74,451	14,812	477	—	89,740
Placements with banks and other financial institutions	128,156	46,133	7,955	633	182,877
Financial assets held under resale agreements	90,546	—	—	—	90,546
Loans and advances to customers	2,257,530	118,492	11,158	10,012	2,397,192
Investment securities	2,031,355	76,503	2,179	7,132	2,117,169
Long-term receivables	82,558	12,233	—	—	94,791
Other assets	136,866	33,078	13,204	27,761	210,909
Total assets	5,321,854	488,925	35,691	49,407	5,895,877
Liabilities:					
Borrowings from central bank	315,438	—	—	—	315,438
Deposits from customers	2,919,583	120,231	16,054	26,374	3,082,242
Deposits and placements from banks and other financial institutions	1,301,923	78,335	5,377	22,384	1,408,019
Financial assets sold under repurchase agreements	113,255	—	—	—	113,255
Borrowings from banks and other financial institutions	79,162	42,867	445	—	122,474
Debt securities issued	394,230	4,146	—	—	398,376
Other liabilities	94,575	6,921	1,581	969	104,046
Total liabilities	5,218,166	252,500	23,457	49,727	5,543,850
Net position	103,688	236,425	12,234	(320)	352,027
Foreign currency derivatives	6,862	422	2,183	—	9,467
Off-balance sheet credit commitments	932,013	48,211	14,108	3,938	998,270

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(2) Market risk (continued)****(ii) Interest rate risk**

The following tables present the Group's exposure to interest rate risk, indicating net carrying amounts of assets and liabilities based on their contractual repricing dates (or maturity dates whichever are earlier).

	Note	30 June 2017					Total
		Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	
Assets:							
Cash and balances with central bank		417,894	—	—	—	6,775	424,669
Balances with banks and other financial institutions		126,088	12,547	15	—	—	138,650
Financial assets at fair value through profit or loss		13,708	21,935	25,376	1,822	3,735	66,576
Placements with banks and other financial institutions		65,467	76,550	6,240	—	—	148,257
Financial assets held under resale agreements		18,572	1,940	—	—	—	20,512
Loans and advances to customers	(i)	2,004,626	406,495	184,920	40,320	—	2,636,361
Investment securities		675,745	327,781	599,733	386,855	4,642	1,994,756
Long-term receivables		109,103	—	—	—	—	109,103
Other assets		8,364	—	—	—	219,961	228,325
Total assets		3,439,567	847,248	816,284	428,997	235,113	5,767,209
Liabilities:							
Borrowings from central bank		—	324,468	—	—	—	324,468
Deposits from customers		2,256,085	591,673	175,051	318	—	3,023,127
Deposits and placements from banks and other financial institutions		845,102	327,592	50	—	—	1,172,744
Financial assets sold under repurchase agreements		51,672	38,794	62	—	—	90,528
Borrowings from banks and other financial institutions		44,896	56,515	26,351	12,604	—	140,366
Debt securities issued		281,545	120,517	62,089	65,600	—	529,751
Other liabilities		627	—	—	—	111,076	111,703
Total liabilities		3,479,927	1,459,559	263,603	78,522	111,076	5,392,687
Total interest sensitivity gap		(40,360)	(612,311)	552,681	350,475	124,037	374,522

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)

(2) Market risk (continued)

(ii) Interest rate risk (continued)

	Note	31 December 2016				Non-interest bearing	Total
		Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years		
Assets:							
Cash and balances with central bank		515,253	—	—	—	8,986	524,239
Balances with banks and other financial institutions		64,977	121,374	2,063	—	—	188,414
Financial assets at fair value through profit or loss		35,600	28,424	21,919	3,071	726	89,740
Placements with banks and other financial institutions		62,897	111,116	8,864	—	—	182,877
Financial assets held under resale agreements		86,000	4,546	—	—	—	90,546
Loans and advances to customers	(i)	1,811,163	398,240	156,672	31,117	—	2,397,192
Investment securities		368,568	711,849	627,546	401,997	7,209	2,117,169
Long-term receivables		94,791	—	—	—	—	94,791
Other assets		12,413	—	—	—	198,496	210,909
Total assets		3,051,662	1,375,549	817,064	436,185	215,417	5,895,877
Liabilities:							
Borrowings from central bank		95,109	220,329	—	—	—	315,438
Deposits from customers		1,859,909	900,527	321,465	341	—	3,082,242
Deposits and placements from banks and other financial institutions		856,773	550,566	680	—	—	1,408,019
Financial assets sold under repurchase agreements		82,144	31,033	78	—	—	113,255
Borrowings from banks and other financial institutions		51,395	41,893	19,485	9,701	—	122,474
Debt securities issued		97,121	204,482	29,529	67,244	—	398,376
Other liabilities		868	—	—	—	103,178	104,046
Total liabilities		3,043,319	1,948,830	371,237	77,286	103,178	5,543,850
Total interest sensitivity gap		8,343	(573,281)	445,827	358,899	112,239	352,027

(i) For loans and advances to customers of the Group, the "Less than 3 months" category includes overdue amounts (net of allowances for impairment losses) of RMB60,599 million as at 30 June 2017 (31 December 2016: RMB56,420 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(3) Liquidity risk****(i) Maturity analysis**

The following tables analyse the Group's assets and liabilities based on remaining periods to repayment as at the end of the reporting period.

Note	30 June 2017							Total
	Indefinite (i)	Repayable on demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Assets:								
Cash and balances with central bank	411,677	12,992	–	–	–	–	–	424,669
Balances with banks and other financial institutions	–	39,949	59,423	26,716	12,547	15	–	138,650
Financial assets at fair value through profit or loss	6,485	–	1,723	7,098	19,001	29,933	2,336	66,576
Placements with banks and other financial institutions	–	–	27,104	38,363	76,550	6,240	–	148,257
Financial assets held under resale agreements	–	–	14,830	3,742	1,940	–	–	20,512
Loans and advances to customers Investment securities	49,955	11,071	329,661	195,384	861,134	714,496	474,660	2,636,361
– available-for-sale securities	46,886	253	5,015	30,021	56,982	144,487	28,056	311,700
– held-to-maturity securities	–	113	299	2,216	11,885	320,026	329,113	663,652
– loans and receivables	–	388	252,536	291,041	258,186	185,683	31,570	1,019,404
Long-term receivables	9,633	725	3,205	4,263	21,462	58,359	11,456	109,103
Other assets	82,449	42,864	14,461	13,554	36,237	32,648	6,112	228,325
Total assets	607,085	108,355	708,257	612,398	1,355,924	1,491,887	883,303	5,767,209
Liabilities:								
Borrowings from central bank	–	–	–	–	324,468	–	–	324,468
Deposits from customers	–	1,300,231	598,928	353,434	591,817	174,586	4,131	3,023,127
Deposits and placements from banks and other financial institutions	–	142,341	289,960	412,801	327,592	50	–	1,172,744
Financial assets sold under repurchase agreements	–	–	45,243	6,429	38,794	62	–	90,528
Borrowings from banks and other financial institutions	–	–	16,431	28,465	56,515	26,351	12,604	140,366
Debt securities issued	–	–	48,829	232,716	120,517	62,089	65,600	529,751
Other liabilities	1,117	31,960	25,723	12,423	36,464	3,588	428	111,703
Total liabilities	1,117	1,474,532	1,025,114	1,046,268	1,496,167	266,726	82,763	5,392,687
Net position	605,968	(1,366,177)	(316,857)	(433,870)	(140,243)	1,225,161	800,540	374,522
Notional amount of derivatives	–	–	478,071	351,973	864,631	138,475	1,802	1,834,952

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)

(3) Liquidity risk (continued)

(i) Maturity analysis (continued)

	Note	31 December 2016						Total	
		Indefinite (j)	Repayable on demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years		More than 5 years
Assets:									
Cash and balances with central bank		430,918	93,321	—	—	—	—	—	524,239
Balances with banks and other financial institutions		—	29,051	19,603	16,323	121,374	2,063	—	188,414
Financial assets at fair value through profit or loss		14,135	—	2,172	19,773	28,424	22,187	3,049	89,740
Placements with banks and other financial institutions		—	—	42,084	20,813	111,116	8,864	—	182,877
Financial assets held under resale agreements		12	—	46,522	39,466	4,546	—	—	90,546
Loans and advances to customers	(ii)	47,104	9,779	301,953	226,813	949,829	466,799	394,915	2,397,192
Investment securities									
— available-for-sale securities		24,181	79	22,710	38,659	57,666	133,059	30,724	307,078
— held-to-maturity securities		—	33	2,990	5,985	10,817	304,483	337,054	661,362
— loans and receivables		—	57	92,908	173,247	641,765	202,642	38,110	1,148,729
Long-term receivables		4,980	383	3,222	4,123	19,538	52,489	10,056	94,791
Other assets		81,235	28,546	15,692	15,659	42,428	20,847	6,502	210,909
Total assets		602,565	161,249	549,856	560,861	1,987,503	1,213,433	820,410	5,895,877
Liabilities:									
Borrowings from central bank		—	—	15,000	80,109	220,329	—	—	315,438
Deposits from customers		—	1,447,825	261,739	150,345	900,527	321,465	341	3,082,242
Deposits and placements from banks and other financial institutions		—	231,399	190,527	434,847	550,566	680	—	1,408,019
Financial assets sold under repurchase agreements		—	—	42,911	39,233	31,033	78	—	113,255
Borrowings from banks and other financial institutions		—	—	19,874	31,521	41,893	19,485	9,701	122,474
Debt securities issued		—	—	23,512	71,937	204,482	29,529	68,916	398,376
Other liabilities		1,164	27,665	17,489	28,626	21,616	5,345	2,141	104,046
Total liabilities		1,164	1,706,889	571,052	836,618	1,970,446	376,582	81,099	5,543,850
Net position		601,401	(1,545,640)	(21,196)	(275,757)	17,057	836,851	739,311	352,027
Notional amount of derivatives		—	—	254,280	188,308	422,194	70,929	988	936,699

(i) For cash and balances with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. For investments, the indefinite period amounts represent the balances being impaired or overdue for more than one month. Equity investments are also reported under indefinite period.

(ii) For loans and advances to customers and long-term receivables, the “indefinite” period amount represents the balance being impaired or overdue for more than one month. The balance not impaired and overdue within one month is included in “repayable on demand”.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(3) Liquidity risk (continued)****(ii) Analysis on contractual undiscounted cash flows of non-derivative financial assets and liabilities**

The following tables analyse the Group's contractual undiscounted cash flows of non-derivative financial assets and liabilities as at the end of the reporting period. The Group manages inherent liquidity risk based on its estimation of expected future cash flows.

	30 June 2017					Total
	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years and indefinite	
Financial assets:						
Cash and balances with central bank	12,993	—	—	—	411,695	424,688
Balances with banks and other financial institutions	99,420	26,796	12,697	15	—	138,928
Financial assets at fair value through profit or loss	1,846	7,477	20,708	33,565	9,293	72,889
Placements with banks and other financial institutions	27,121	39,418	77,448	6,483	—	150,470
Financial assets held under resale agreements	14,832	3,772	2,001	—	—	20,605
Loans and advances to customers	419,405	218,313	932,689	875,401	808,193	3,254,001
Investment securities	263,875	333,999	362,541	747,054	469,916	2,177,385
Long-term receivables	4,332	4,672	23,767	68,959	29,573	131,303
Other financial assets	47,877	7,442	19,941	9,065	5,577	89,902
Total financial assets (expected maturity date)	891,701	641,889	1,451,792	1,740,542	1,734,247	6,460,171
Financial liabilities:						
Borrowings from central bank	—	—	332,703	—	—	332,703
Deposits from customers	1,899,723	354,796	599,565	187,168	3,733	3,044,985
Deposits and placements from banks and other financial institutions	432,671	416,136	333,485	52	—	1,182,344
Financial assets sold under repurchase agreements	45,243	6,465	39,577	67	—	91,352
Borrowings from banks and other financial institutions	16,456	28,690	58,307	28,378	16,508	148,339
Debt securities issued	48,940	234,537	122,493	67,896	92,621	566,487
Other financial liabilities	10,494	2,351	10,613	4,350	712	28,520
Total financial liabilities (contractual maturity date)	2,453,527	1,042,975	1,496,743	287,911	113,574	5,394,730

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(3) Liquidity risk (continued)****(ii) Analysis on contractual undiscounted cash flows of non-derivative financial assets and liabilities (continued)**

	31 December 2016					Total
	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years and indefinite	
Financial assets:						
Cash and balances with central bank	93,322	—	—	—	430,937	524,259
Balances with banks and other financial institutions	49,585	16,787	122,629	2,179	—	191,180
Financial assets at fair value through profit or loss	2,261	20,190	30,072	24,703	17,560	94,786
Placements with banks and other financial institutions	42,117	20,928	113,753	9,597	—	186,395
Financial assets held under resale agreements	46,565	39,666	4,647	—	12	90,890
Loans and advances to customers	383,709	245,879	1,013,334	597,869	667,214	2,908,005
Investment securities	120,803	227,361	754,832	743,292	478,790	2,325,078
Long-term receivables	4,111	4,629	21,944	62,449	22,112	115,245
Other financial assets	32,766	11,458	23,515	1,974	8,892	78,605
Total financial assets (expected maturity date)	775,239	586,898	2,084,726	1,442,063	1,625,517	6,514,443
Financial liabilities:						
Borrowings from central bank	15,029	80,468	223,945	—	—	319,442
Deposits from customers	1,766,905	150,951	915,177	363,139	604	3,196,776
Deposits and placements from banks and other financial institutions	422,230	438,546	563,591	737	—	1,425,104
Financial assets sold under repurchase agreements	42,960	39,524	31,860	86	—	114,430
Borrowings from banks and other financial institutions	19,900	31,696	42,625	21,254	12,547	128,022
Debt securities issued	23,553	72,349	208,848	31,831	98,409	434,990
Other financial liabilities	14,621	1,542	2,519	2,426	1,550	22,658
Total financial liabilities (contractual maturity date)	2,305,198	815,076	1,988,565	419,473	113,110	5,641,422

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(3) Liquidity risk (continued)****(iii) Analysis on contractual undiscounted cash flows of derivatives****a Derivatives settled on a net basis**

The Group's derivatives that will be settled on a net basis include:

- Interest rate derivatives: interest rate swaps;
- Credit derivatives: credit default swaps.

The following tables analyse the Group's contractual undiscounted cash flows of derivatives to be settled on a net basis as at the end of the reporting period.

	30 June 2017					Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Interest rate derivatives	(1)	41	(268)	(499)	(12)	(739)
Credit derivatives	—	2	6	24	—	32
Total	(1)	43	(262)	(475)	(12)	(707)

	31 December 2016					Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Interest rate derivatives	—	2	3	3	—	8
Credit derivatives	—	—	—	—	—	—
Total	—	2	3	3	—	8

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(3) Liquidity risk (continued)****(iii) Analysis on contractual undiscounted cash flows of derivatives (continued)****b Derivatives settled on a gross basis**

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: foreign exchange forwards, currency swaps and currency options;
- Precious metal derivatives: precious metal forwards & swaps;
- Other derivatives: futures and equity derivatives.

The following tables analyse the Group's contractual undiscounted cash flows of derivatives to be settled on a gross basis as at the end of the reporting period.

	30 June 2017					Total
	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Foreign exchange derivatives						
— Cash outflow	(450,875)	(228,476)	(651,071)	(4,622)	—	(1,335,044)
— Cash inflow	451,750	228,524	647,346	4,741	—	1,332,361
Precious metal derivatives						
— Cash outflow	(12,223)	(13,410)	(35,988)	—	—	(61,621)
— Cash inflow	12,376	15,025	39,954	—	—	67,355
Others						
— Cash outflow	—	—	(1,551)	—	—	(1,551)
— Cash inflow	—	—	1,550	—	—	1,550
Total cash outflow	(463,098)	(241,886)	(688,610)	(4,622)	—	(1,398,216)
Total cash inflow	464,126	243,549	688,850	4,741	—	1,401,266

	31 December 2016					Total
	Less than 1 months	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Foreign exchange derivatives						
— Cash outflow	(197,179)	(75,479)	(239,967)	(2,535)	—	(515,160)
— Cash inflow	199,718	77,114	245,207	2,588	—	524,627
Precious metal derivatives						
— Cash outflow	(21,476)	(31,925)	(38,824)	—	—	(92,225)
— Cash inflow	20,298	30,661	38,507	—	—	89,466
Others						
— Cash outflow	—	—	(13)	—	—	(13)
— Cash inflow	—	—	109	—	—	109
Total cash outflow	(218,655)	(107,404)	(278,804)	(2,535)	—	(607,398)
Total cash inflow	220,016	107,775	283,823	2,588	—	614,202

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(3) Liquidity risk (continued)****(iv) Analysis on contractual undiscounted cash flows of commitments**

Management treats contractual maturity as the best estimate for analysing liquidity risk of off-balance sheet items, unless an objective evidence of default is identified.

	30 June 2017			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Bank acceptances	524,803	—	—	524,803
Letters of credit	123,150	1,099	—	124,249
Guarantees	102,005	47,149	2,942	152,096
Unused credit card commitments	89,120	—	—	89,120
Capital commitments	3,825	16,943	1,219	21,987
Operating lease commitments	8,480	4,838	1,071	14,389
Irrevocable loan commitments	1,609	1,140	1,361	4,110
Finance lease commitments	2,396	2,035	—	4,431
Total	855,388	73,204	6,593	935,185

	31 December 2016			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Bank acceptances	612,583	—	—	612,583
Letters of credit	110,330	—	—	110,330
Guarantees	140,193	53,430	2,943	196,566
Unused credit card commitments	63,335	—	—	63,335
Capital commitments	2,682	11,092	17	13,791
Operating lease commitments	5,199	8,602	2,770	16,571
Irrevocable loan commitments	138	7,287	1,210	8,635
Finance lease commitments	4,722	2,099	—	6,821
Total	939,182	82,510	6,940	1,028,632

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)

(4) Operational risk

Operational risk refers to the risk of loss due to deficient and flawed internal procedures, personnel and information technology (“IT”) system, or external events. The operational risk of the Group mainly comprises internal and external fraud, employment system, safety of working places, events related to customers, products and operation, damages of tangible assets, interruption of business, failure of IT system, implementation, delivery and process management.

The Bank devoted to promoting the implementation of the three major operational risk management tools in the Bank and the establishment of operational risk management information system, according to the regulatory requirements of operational risk. The Bank has carried out Risk Control Self Assessment (RCSA), established key risk indicator monitoring system and internal loss issue management system regarding operational risk. Besides, the Bank conducted operational risk cost measurement and enhanced the outsourcing risk management, and promoted the establishment of business continuity management. Furthermore, the Bank focused on investigation of the risk on business field systematically.

(5) Capital management

In managing capital, the Group aims to ensure compliance with regulatory requirements, continuously improve its ability to mitigate risks and enhance the return on its capital. On this basis, the Group has set its capital adequacy objectives, and taken a range of measures, including budgeting/planning and performance measurement and limit management, to ensure the realisation of management objectives. This helps meet the requirements for regulatory compliance, credit rating, risk premium and shareholder return; promote the Group’s risk management; ensure an orderly expansion of asset bases; and enhance business structures and models.

In recent years, the Group increased capital utilisation. To ensure the capital adequacy ratio (“CAR”) is in line with regulatory requirements etc., the Group commits itself to establishing and fostering discipline for economically efficient capital management. There is continuous improvement of locked-in capital accounting and an introduction of planning and performance assessments that have return on capital as a primary performance indicator. At the same time, the use of capital is better managed, and management policies have been implemented to guide coordinated asset growth in business entities, with reduced capital requirements.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)

(5) Capital management (continued)

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the CBRC. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

The Group started computing the capital adequacy ratios in accordance with the *Measures for Administration of Capital of Commercial Banks (Trial Implementation)* and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with the *Measures for Administration of Capital of Commercial Banks (Trial Implementation)*. For systemically important banks, each bank is required to maintain the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio not below the minimum of 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for OTC derivatives are the summation of default risk-weighted assets and credit value adjustment ("CVA"). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The Group computes the following core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with the *Measures for Administration of Capital of Commercial Banks (Trial Implementation)* and relevant requirements promulgated by the CBRC. The requirements pursuant to these regulations may have certain differences comparing to those applicable in Hong Kong and other countries.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under Accounting Standards for Business Enterprises ("ASBE"). During the period, the Group has complied in full with all its externally imposed capital requirements.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)**(5) Capital management (continued)**

The Group calculates the capital adequacy ratios in accordance with the *Measures for Administration of Capital of Commercial Banks (Trial Implementation)* and relevant requirements promulgated by the CBRC.

	Note	30 June 2017	31 December 2016
Core tier-one capital adequacy ratio		9.18%	8.95%
Tier-one capital adequacy ratio		9.46%	9.22%
Capital adequacy ratio		11.91%	11.73%
Components of capital base			
Core tier-one capital:			
Share capital		36,485	36,485
Valid portion of capital reserve		64,744	64,744
Surplus reserve		32,805	30,052
General reserve		73,070	72,929
Retained earnings		149,803	130,630
Valid portion of non-controlling interests		7,150	7,011
Others	(1)	(2,604)	(2,142)
Total core tier-one capital		361,453	339,709
Total core tier-one capital		361,453	339,709
Core tier-one capital deductions		(1,166)	(1,035)
Net core tier-one capital		360,287	338,674
Other tier-one capital		10,847	10,589
Net tier-one capital		371,134	349,263
Tier-two capital:			
Valid portion of tier-two capital instruments issued and share premium		68,920	68,916
Surplus provision for loan impairment		25,852	24,442
Valid portion of non-controlling interests		1,277	1,409
Tier-two capital deductions		—	—
Net tier-two capital		96,049	94,767
Net capital base		467,183	444,030
Credit risk-weighted assets		3,603,871	3,468,749
Market risk-weighted assets		44,826	42,638
Operational risk-weighted assets		274,686	274,686
Total risk-weighted assets		3,923,383	3,786,073

Note:

- (1) Pursuant to the *Measures for Administration of Capital of Commercial Banks (Trial Implementation)* issued by the CBRC, others represent the balance of investment revaluation reserve, exchange reserve and cash flow hedging reserve at the period end.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information

The Group manages its businesses from the perspectives of geography and business lines. The geographical segment can be divided into four regions, including Northern China, Eastern China, Southern China and others. The business segment can be divided into four business lines including corporate banking, personal banking, treasury and others. The Group primarily provides financial services through these four business lines.

Segment assets, liabilities, revenues, operating results and capital expenditures are measured in accordance with the Group's accounting policies and internal management rules. The items of each segment include those which can be directly attributable to the segment or can be assigned to the segment based on reasonable criteria. As part of the management of assets and liabilities, the Group's capital resources and uses are allocated to various business segments through the treasury business. The Group's internal transfer pricing mechanism uses deposit and loan interest rates and market interest rates as the benchmark, and determines transfer prices with reference to different products and their maturity. The impact of internal trading has been offset when preparing the consolidated statements.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information (continued)

Operating segments are presented as the following geographical and business segments:

Geographical segments

- (1) Northern China: including Minsheng Financial Leasing Co., Ltd. (“Minsheng Financial Leasing”), Ningjin Minsheng Rural Bank Co., Ltd. (“Ningjin Rural Bank”), Headquarters and the branches in Beijing, Taiyuan, Shijiazhuang and Tianjin.
- (2) Eastern China: including Cixi Minsheng Rural Bank Co., Ltd. (“Cixi Rural Bank”), Shanghai Songjiang Minsheng Rural Bank Co., Ltd. (“Songjiang Rural Bank”), Shanghai Jiading Minsheng Rural Bank Co., Ltd. (“Jiading Rural Bank”), Penglai Minsheng Rural Bank Co., Ltd. (“Penglai Rural Bank”), Funing Minsheng Rural Bank Co., Ltd. (“Funing Rural Bank”), Taicang Minsheng Rural Bank Co., Ltd. (“Taicang Rural Bank”), Ningguo Minsheng Rural Bank Co., Ltd. (“Ningguo Rural Bank”), Guichi Minsheng Rural Bank Co., Ltd. (“Guichi Rural Bank”), Tiantai Minsheng Rural Bank Co., Ltd. (“Tiantai Rural Bank”), Tianchang Minsheng Rural Bank Co., Ltd. (“Tianchang Rural Bank”) and the branches in Shanghai, Hangzhou, Ningbo, Nanjing, Jinan, Suzhou, Wenzhou, Qingdao, Hefei, Nanchang and China (Shanghai) Pilot Free Trade Zone.
- (3) Southern China: including Minsheng Royal Fund Management Co., Ltd. (“Minsheng Royal Fund”), Anxi Minsheng Rural Bank Co., Ltd. (“Anxi Rural Bank”), Zhangpu Minsheng Rural Bank Co., Ltd. (“Zhangpu Rural Bank”), Xiang’an Minsheng Rural Bank Co., Ltd. (“Xiang’an Rural Bank”) and the branches in Fuzhou, Guangzhou, Shenzhen, Quanzhou, Shantou, Xiamen, Nanning and Haikou.
- (4) Others: including Minyin International Holdings Ltd. (“CMBC International”), Pengzhou Minsheng Rural Bank Co., Ltd. (“Pengzhou Rural Bank”), Qijiang Minsheng Rural Bank Co., Ltd. (“Qijiang Rural Bank”), Tongnan Minsheng Rural Bank Co., Ltd. (“Tongnan Rural Bank”), Meihekou Minsheng Rural Bank Co., Ltd. (“Meihekou Rural Bank”), Ziyang Minsheng Rural Bank Co., Ltd. (“Ziyang Rural Bank”), Wuhan Jiangxia Minsheng Rural Bank Co., Ltd. (“Jiangxia Rural Bank”), Changyuan Minsheng Rural Bank Co., Ltd. (“Changyuan Rural Bank”), Yidu Minsheng Rural Bank Co., Ltd. (“Yidu Rural Bank”), Zhongxiang Minsheng Rural Bank Co., Ltd. (“Zhongxiang Rural Bank”), Puer Minsheng Rural Bank Co., Ltd. (“Puer Rural Bank”), Jinghong Minsheng Rural Bank Co., Ltd. (“Jinghong Rural Bank”), Zhidan Minsheng Rural Bank Co., Ltd. (“Zhidan Rural Bank”), Yulin Yuyang Minsheng Rural Bank Co., Ltd. (“Yuyang Rural Bank”), Tengchong Minsheng Rural Bank Co., Ltd. (“Tengchong Rural Bank”), Linzhi Minsheng Rural Bank Co., Ltd. (“Linzhi Rural Bank”) and the branches in Xi’an, Dalian, Chongqing, Chengdu, Kunming, Wuhan, Changsha, Zhengzhou, Changchun, Hohhot, Shenyang, Hong Kong, Gui Yang, Lhasa, Lanzhou, Harbin, Urumqi, Xining and Yinchuan.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information (continued)

Geographical segments (continued)

	Six months ended 30 June 2017					
	Northern China	Eastern China	Southern China	Other locations	Inter- segment elimination	Total
External net interest income	31,677	1,128	576	7,734	—	41,115
Inter-segment net interest (expense)/income	(19,511)	10,271	6,723	2,517	—	—
Net interest income	12,166	11,399	7,299	10,251	—	41,115
Fee and commission income	21,746	1,563	2,583	1,483	—	27,375
Fee and commission expense	(1,507)	(265)	(888)	(238)	—	(2,898)
Net fee and commission income	20,239	1,298	1,695	1,245	—	24,477
Operating expenses	(7,405)	(4,238)	(2,617)	(4,054)	—	(18,314)
Impairment losses on assets	(8,262)	(3,784)	(1,590)	(3,503)	—	(17,139)
Net other income	3,860	92	106	254	—	4,312
Profit before income tax	20,598	4,767	4,893	4,193	—	34,451
Depreciation and amortisation	1,469	353	186	355	—	2,363
Capital expenditure	2,610	655	170	119	—	3,554
	As at 30 June 2017					
Segment assets	4,336,081	1,469,884	791,539	1,006,175	(1,861,378)	5,742,301
Investments in associates and joint ventures	—	—	17	—	—	17
Deferred income tax assets						24,908
Total assets						5,767,209
Segment liabilities/total liabilities	(4,029,114)	(1,456,264)	(779,005)	(989,682)	1,861,378	(5,392,687)
Credit commitments	319,705	286,195	87,805	205,104	—	898,809

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information (continued)

Geographical segments (continued)

	Six months ended 30 June 2016					Inter-segment elimination	Total
	Northern China	Eastern China	Southern China	Other locations			
External net interest income	28,101	6,888	2,210	10,239	—	—	47,438
Inter-segment net interest (expense)/income	(10,274)	5,284	4,560	430	—	—	—
Net interest income	17,827	12,172	6,770	10,669	—	—	47,438
Fee and commission income	22,400	2,789	2,159	2,439	—	—	29,787
Fee and commission expense	(877)	(331)	(343)	(177)	—	—	(1,728)
Net fee and commission income	21,523	2,458	1,816	2,262	—	—	28,059
Operating expenses	(8,445)	(5,256)	(3,140)	(4,605)	—	—	(21,446)
Impairment losses on assets	(10,729)	(5,220)	(1,406)	(3,407)	—	—	(20,762)
Net other income	890	585	190	227	—	—	1,892
Profit before income tax	21,066	4,739	4,230	5,146	—	—	35,181
Depreciation and amortisation	1,207	378	202	436	—	—	2,223
Capital expenditure	2,289	252	144	330	—	—	3,015
As at 31 December 2016							
Segment assets	4,795,197	1,521,038	827,041	1,077,414	(2,348,179)	—	5,872,511
Investments in associates and joint ventures	—	—	25	—	—	—	25
Deferred income tax assets	—	—	—	—	—	—	23,366
Total assets	—	—	—	—	—	—	5,895,877
Segment liabilities/total liabilities	(4,523,616)	(1,504,305)	(808,695)	(1,055,413)	2,348,179	—	(5,543,850)
Credit commitments	344,463	323,375	99,029	231,403	—	—	998,270

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information (continued)

Business segments

The Group provides services through four business segments: corporate banking, personal banking, treasury and others.

Corporate banking — providing banking products and services for corporate customers, government agencies and financial institutions. These products and services include deposits, loans, trust, trade-related products and other credit services and foreign currency.

Personal banking — providing banking products and services for individual clients. These products and services include savings deposits, investment savings products, credit and debit cards, micro lending, residential mortgage and consumer credit.

Treasury — including foreign exchange trading, interest rate and foreign exchange derivatives transactions, money market transactions, proprietary trading, and asset-liability management. This segment's operating results include gains and losses from foreign currency translation and the impact of interest-bearing assets and liabilities on internal fund flows and profit and loss.

Others — the Group's other businesses including the Group's investments and any other business which cannot form a single reportable segment.

As the total revenue of the Group's business segments is mainly derived from interest and the Group's senior management relies primarily on net interest income to assess each segment's performance, the total interest income and expense for all reportable segments is disclosed on a net basis.

The revenue from external parties reported to the Group's senior management is reported in a manner consistent with that in the consolidated income statement. Inter-segment transactions are eliminated.

Funds are normally allocated among segments, and inter-segment net interest income is based on the Group's capital cost. There are no other material items of income or expense between the business segments.

Internal transfer pricing is adjusted based on the nature of each transaction. Revenues from external customers are allocated to each business segment on a reasonable basis.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information (continued)

Business segments (continued)

Segment assets include all tangible and intangible assets, other long-term assets, receivables and other assets with the exception of deferred income tax assets. Segment liabilities include all the liabilities attributable to the segments.

	Six months ended 30 June 2017				Total
	Corporate banking business	Personal banking business	Treasury business	Other business	
Net interest income	19,987	13,034	7,526	568	41,115
Include: inter-segment net interest income/(expense)	5,528	(6,609)	1,079	2	—
Net fee and commission income	8,867	11,572	3,260	778	24,477
Include: inter-segment net fee and commission (expense)/income	(165)	—	—	165	—
Operating expenses	(7,616)	(6,517)	(3,655)	(526)	(18,314)
Impairment losses on assets	(7,627)	(8,779)	(397)	(336)	(17,139)
Net other income	46	27	2,994	1,245	4,312
Profit before income tax	13,657	9,337	9,728	1,729	34,451
Depreciation and amortisation	781	661	374	547	2,363
Capital expenditure	174	148	85	3,147	3,554

	As at 30 June 2017				
Segment assets	1,691,743	1,005,860	2,858,554	186,144	5,742,301
Investments in associates and joint ventures	—	—	—	17	17
Deferred income tax assets					24,908
Total assets					5,767,209
Segment liabilities/total liabilities	(2,496,250)	(619,341)	(2,109,148)	(167,948)	(5,392,687)
Credit commitments	805,258	89,120	—	4,431	898,809

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information (continued)

Business segments (continued)

	Six months ended 30 June 2016				Total
	Corporate banking business	Personal banking business	Treasury business	Other business	
Net interest income	29,512	13,294	3,830	802	47,438
Include: inter-segment net interest income/(expense)	8,791	(3,817)	(5,006)	32	—
Net fee and commission income	11,626	11,476	3,863	1,094	28,059
Include: inter-segment net fee and commission (expense)/income	(20)	—	—	20	—
Operating expenses	(11,113)	(6,771)	(3,000)	(562)	(21,446)
Impairment losses on assets	(5,737)	(14,362)	(379)	(284)	(20,762)
Net other income	408	22	1,008	454	1,892
Profit before income tax	24,696	3,659	5,322	1,504	35,181
Depreciation and amortisation	898	530	181	614	2,223
Capital expenditure	921	543	186	1,365	3,015

	As at 31 December 2016				
Segment assets	1,600,607	889,907	3,220,636	161,361	5,872,511
Investments in associates and joint ventures	—	—	—	25	25
Deferred income tax assets					23,366
Total assets					5,895,877
Segment liabilities/total liabilities	(2,578,464)	(616,229)	(2,204,088)	(145,069)	(5,543,850)
Credit commitments	928,114	63,335	—	6,821	998,270

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

5 Net interest income

	Six months ended 30 June	
	2017	2016
Interest income arising from:		
– Loans and advances to customers	60,619	57,115
– Corporate loans and advances	34,212	33,253
– Personal loans and advances	24,198	21,771
– Discounted bills	2,209	2,091
– Investment securities	39,234	21,437
– Including: Financial assets at fair value through profit or loss	1,159	686
– Balances with central bank	3,515	3,381
– Placements with banks and other financial institutions	3,273	3,889
– Long-term receivables	2,984	2,946
– Balances with banks and other financial institutions	2,062	2,056
– Financial assets held under resale agreements	1,446	7,226
Subtotal	113,133	98,050
Interest expense arising from:		
– Deposits and placements from banks and other financial institutions	(27,196)	(16,193)
– Deposits from customers	(26,206)	(25,500)
– Debt securities issued	(8,575)	(3,974)
– Borrowings from central bank	(4,705)	(2,191)
– Financial assets sold under repurchase agreements	(2,702)	(758)
– Borrowings from banks and other financial institutions and others	(2,634)	(1,996)
Subtotal	(72,018)	(50,612)
Net interest income	41,115	47,438
Of which:		
Interest income from impaired financial assets identified	446	481

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

6 Net fee and commission income

	Six months ended 30 June	
	2017	2016
Fee and commission income		
– Bank card services	10,121	7,945
– Trust and other fiduciary services	7,097	7,411
– Agency services	6,330	9,293
– Credit commitments	1,607	2,929
– Settlement services	1,603	1,333
– Financial advisory services	196	392
– Others	421	484
Subtotal	27,375	29,787
Fee and commission expense	(2,898)	(1,728)
Net fee and commission income	24,477	28,059

7 Net trading gain

	Six months ended 30 June	
	2017	2016
Gain/(loss) on interest rate instruments	230	(210)
Gain/(loss) on precious metals and other products	1,063	(115)
Gain on exchange rate instruments	133	384
Total	1,426	59

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

8 Net gain arising from disposals of securities and discounted bills

	Six months ended 30 June	
	2017	2016
Net gain arising from disposals of discounted bills	27	395
Net gain arising from disposals of securities	1,658	583
Total	1,685	978

Gain or loss arising from disposals of discounted bills represents the difference between the discounted interest income unamortised and rediscounted interest cost.

9 Impairment losses on assets

	Six months ended 30 June	
	2017	2016
Loans and advances to customers	16,330	20,816
Investment securities		
— loans and receivables	345	326
Long-term receivables	242	280
Placements with banks and other financial institutions	(5)	—
Others	227	(660)
Total	17,139	20,762

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

10 Operating expenses

	Six months ended 30 June	
	2017	2016
Staff costs, including directors' emoluments		
— Salaries, bonuses, allowances and subsidies payables	7,715	7,584
— Post-employment benefits-defined contribution plans	1,064	1,156
Rental and property management expenses	2,122	2,301
Depreciation and amortisation	1,652	1,719
Tax and surcharges	753	3,494
Office expenses	689	780
Business expenses and others	4,319	4,412
Total	18,314	21,446

Auditor's remuneration included in the operating expenses of the Group for the six months ended 30 June 2017 was RMB5 million (for the six months ended 30 June 2016: RMB5 million).

11 Income tax expense

	Six months ended 30 June	
	2017	2016
Current tax for the period	7,425	10,596
Adjustment for prior periods	(126)	(170)
Subtotal	7,299	10,426
Changes in deferred tax (Note 23)	(1,462)	(2,947)
Total	5,837	7,479

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

11 Income tax expense (continued)

Reconciliation between income tax expense and accounting profit of the Group is listed as follows:

	Note	Six months ended 30 June	
		2017	2016
Profit before income tax		34,451	35,181
Income tax at the tax rate of 25%		8,613	8,795
Effect of non-taxable income	(i)	(2,775)	(1,481)
Effect of non-deductible expenses		125	249
Others		(126)	(84)
Income tax expense		5,837	7,479

- (i) The non-taxable income mainly represents interest income arising from PRC government bonds and municipal bonds, which are exempted from income tax.

The applicable income tax rate for mainland China is 25% for the period ended 30 June 2017 (for the six months ended 30 June 2016: 25%). The applicable income tax rate for Hong Kong branch is 16.5% (for the six months ended 30 June 2016: 16.5%).

12 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Bank by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by dividing the adjusted profit attributable to equity shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. There's no dilutive potential shares during the first half of 2017 and the first half of 2016.

	Six months ended 30 June	
	2017	2016
Net profit attributable to equity shareholders of the Bank	28,088	27,223
Weighted average number of ordinary shares in issue (in millions)	36,485	36,485
Basic/Diluted earnings per share (in RMB)	0.77	0.75

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

13 Cash and balances with central bank

	30 June 2017	31 December 2016
Cash	6,775	8,986
Balances with central bank		
Statutory deposit reserves	408,332	427,603
Surplus deposit reserves	6,217	84,335
Fiscal deposits and others	3,345	3,315
Subtotal	417,894	515,253
Total	424,669	524,239

The Group places statutory deposit reserves with the PBOC or local regulator. The statutory deposit reserves are not available for use in the Group's daily business.

As at 30 June 2017 the statutory deposit reserve rate applicable to domestic branches of the Bank for RMB deposits is 15.0% (31 December 2016: 15.0%) and the reserve rate for foreign currency deposits is 5.0% (31 December 2016: 5.0%). The amount of statutory deposit reserves of the subsidiaries and overseas branches of the Group are determined by local jurisdiction.

Surplus deposit reserves maintained with the PBOC is for the purposes of clearing interbank transactions.

14 Balances with banks and other financial institutions

	30 June 2017	31 December 2016
Mainland China		
— Banks	114,579	171,645
— Other financial institutions	7,110	6,141
Subtotal	121,689	177,786
Overseas		
— Banks	16,513	10,310
— Other financial institutions	448	318
Subtotal	16,961	10,628
Total	138,650	188,414

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

15 Financial assets at fair value through profit or loss

	30 June 2017	31 December 2016
Held for trading purpose		
Debt securities		
Government		
— Listed outside Hong Kong	678	605
Policy banks		
— Listed in Hong Kong	68	—
— Listed outside Hong Kong	2,118	3,039
Banking and non-banking financial institution bonds		
— Listed in Hong Kong	5,300	2,232
— Listed outside Hong Kong	11,770	19,234
Other corporates		
— Listed in Hong Kong	5,922	6,314
— Listed outside Hong Kong	26,867	39,360
Equity investments		
— Listed in Hong Kong	209	726
Investment funds		
— Unlisted	868	12,304
Designated at fair value through profit or loss		
Debt securities		
Banking and non-banking financial institution bonds		
— Unlisted	1,355	—
Other corporates		
— Unlisted	6,013	4,812
Equity investments		
— Unlisted	3,526	—
Investment funds		
— Unlisted	1,882	1,114
Total	66,576	89,740

The financial statements classified debt securities traded on China Domestic Interbank Bond Market as listed bonds.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

16 Derivatives

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instrument mainly including forwards, swaps and options.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in any orderly transaction between market participants at measured date.

The notional amount and fair value of unexpired derivative financial instruments held by the Group are set out in the following tables:

	30 June 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	1,248,298	7,016	(7,873)
Interest rate swaps	428,826	244	(104)
Precious metal derivatives	75,679	1,811	(1,071)
Foreign exchange forwards	45,519	426	(560)
Currency options	29,914	155	(115)
Extension options	5,000	—	—
Credit derivatives	135	4	—
Others	1,581	66	(65)
Total		9,722	(9,788)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

16 Derivatives (continued)

	31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	961,676	4,350	(7,045)
Interest rate swaps	312,133	104	(141)
Precious metal derivatives	90,504	2,775	(1,978)
Foreign exchange forwards	52,682	354	(968)
Currency options	22,748	171	(145)
Extension options	5,000	—	—
Credit derivatives	139	1	—
Others	21	88	—
Total		7,843	(10,277)

Cash flow hedges

The Group's cash flow hedges represent currency swap contracts that are used to hedge against exposures to variability of future cash flows.

Among the above derivative financial instruments, those designated as hedging instruments in cash flow hedges are set out below.

	30 June 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swap	30,517	334	—
Total		334	—

	31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swap	35,880	—	(1,821)
Total		—	(1,821)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

16 Derivatives (continued)**Credit risk weighted amount**

	30 June 2017	31 December 2016
Exchange rate contracts	4,984	3,133
Precious metal contracts	1,439	1,851
Interest rate contracts	254	152
Other derivative contracts	161	87
Total	6,838	5,223

The credit risk weighted amount represents the counterparty credit risk associated with derivative transactions and is calculated with reference to the guidelines issued by the CBRC. The amount calculated is dependent on, among other factors, the credit worthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk weighted amounts stated above have taken the effects of netting arrangements into account.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

17 Placements with banks and other financial institutions

	30 June 2017	31 December 2016
Mainland China		
– Banks	16,585	23,400
– Other financial institutions	105,836	118,364
Overseas		
– Banks	23,255	37,768
– Other financial institutions	2,604	3,374
Less: Allowance for impairment losses	(23)	(29)
Total	148,257	182,877

18 Financial assets held under resale agreements

	30 June 2017	31 December 2016
Bonds	10,184	47,711
Discounted bills	5,328	40,674
Others*	5,000	2,317
Gross balance	20,512	90,702
Less: allowance for impairment losses	–	(156)
Net balance	20,512	90,546

* Others are financial assets held under resale agreements of which the underlying assets were the beneficiary rights of trusts, beneficiary oriented asset management or finance lease receivables.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers

	30 June 2017	31 December 2016
Corporate loans and advances		
– Corporate loans	1,583,006	1,394,864
– Discounted bills	103,538	165,800
Subtotal	1,686,544	1,560,664
Personal loans and advances		
– Residential mortgage	350,320	295,875
– Micro lending*	346,348	335,074
– Credit cards	246,998	207,372
– Others	76,084	62,601
Subtotal	1,019,750	900,922
Gross balance	2,706,294	2,461,586
Less: allowance for impairment losses		
– Individual assessment	(13,346)	(11,142)
– Collective assessment	(56,587)	(53,252)
Subtotal	(69,933)	(64,394)
Net balance	2,636,361	2,397,192

* Micro lending is a loan product offered to the small micro enterprise owners and proprietors.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)

(1) Loans and advances to customers analysed by methods for assessing allowances for impairment losses

	30 June 2017				
	Loans and advances for which allowances are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Subtotal	Total
		for which allowances are collectively assessed	for which allowances are individually assessed		
Gross balance of loans and advances to customers					
– Corporate loans and advances	1,661,377	–	25,167	25,167	1,686,544
– Personal loans and advances	999,307	20,443	–	20,443	1,019,750
Allowance for impairment losses	(43,344)	(13,243)	(13,346)	(26,589)	(69,933)
Net balance of loans and advances to customers	2,617,340	7,200	11,821	19,021	2,636,361

	31 December 2016				
	Loans and advances for which allowances are collectively assessed (Note (i))	Impaired loans and advances (Note (ii))		Subtotal	Total
		for which allowances are collectively assessed	for which allowances are individually assessed		
Gross balance of loans and advances to customers					
– Corporate loans and advances	1,538,466	–	22,198	22,198	1,560,664
– Personal loans and advances	881,685	19,237	–	19,237	900,922
Allowance for impairment losses	(40,237)	(13,015)	(11,142)	(24,157)	(64,394)
Net balance of loans and advances to customers	2,379,914	6,222	11,056	17,278	2,397,192

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)

(1) Loans and advances to customers analysed by methods for assessing allowances for impairment losses (Continued)

- (i) Loans and advances for which allowance is collectively assessed include those graded pass or special mention.

- (ii) Impaired loans and advances include those with objective evidence of impairment and are assessed:
 - individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

 - collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)**(1) Loans and advances to customers analysed by methods for assessing allowances for impairment losses (Continued)**

- (iii) According to the CBRC Guidelines for Risk Classification of Loans (the “Guidelines”), the definitions of the loan classifications are as follows:

Pass: The borrower can fulfill contracts, and there is no sufficient reason to suspect that the principal and interest of loans cannot be repaid in full on time.

Special-mention: The borrower can make current payments, but there may be some potential issues that could adversely impact future payments.

Substandard: The borrower’s repayment ability has been impaired and its normal income is insufficient to repay the loan principal and interest in full. Even with the enforcement of the related guarantee (if any), there may be a certain level of loss.

Doubtful: The borrower can’t repay the principal plus the interest in full. Even with the enforcement of guarantee (if any), there will be a significant loss.

Loss: After taking all possible actions or resorting to all necessary legal proceedings, the loan principal and interest cannot be recovered or only a small portion of them can be recovered.

- (iv) As at 30 June 2017, impaired loans and advances of the Group for which the impairment allowances were individually assessed amounted to RMB25,167 million (31 December 2016: RMB22,198 million). The covered portion and uncovered portion of these loans and advances were RMB11,080 million (31 December 2016: RMB10,088 million) and RMB14,087 million (31 December 2016: RMB12,110 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB5,017 million (31 December 2016: RMB5,052 million). As at 30 June 2017, the individual impairment allowances made for these loans and advances were RMB13,346 million (31 December 2016: RMB11,142 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)**(2) Loans and advances to customers analysed by industries**

	30 June 2017		31 December 2016	
	Amount	(%)	Amount	(%)
Corporate loans and advances				
Manufacturing	361,239	13.35	321,246	13.05
Real estate	242,651	8.97	226,944	9.22
Wholesale and retail	233,571	8.63	221,161	8.98
Leasing and commercial services	232,483	8.59	199,841	8.12
Mining	128,724	4.76	128,243	5.21
Financial services	99,147	3.66	110,836	4.50
Transportation, storage and postal service	88,782	3.28	79,753	3.24
Water, environment and public utilities management	84,653	3.13	61,187	2.49
Construction	75,248	2.78	66,678	2.71
Production and supply of electric power, heat, gas and water	50,769	1.88	46,569	1.89
Public administration, social security and social organisations	15,629	0.58	24,886	1.01
Agriculture, forestry, animal husbandry and fishery	13,308	0.49	15,905	0.65
Accommodation and catering	8,039	0.30	8,277	0.34
Others	52,301	1.92	49,138	1.99
Subtotal	1,686,544	62.32	1,560,664	63.40
Personal loans and advances	1,019,750	37.68	900,922	36.60
Total	2,706,294	100.00	2,461,586	100.00

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)**(3) Loans and advances to customers analysed by types of collateral**

	30 June 2017		31 December 2016	
	Amount	(%)	Amount	(%)
Unsecured loans	609,828	22.53	493,658	20.05
Guaranteed loans	644,190	23.80	632,487	25.69
Loans secured by				
— tangible assets other than monetary assets	1,077,659	39.83	972,097	39.50
— monetary assets	374,617	13.84	363,344	14.76
Total	2,706,294	100.00	2,461,586	100.00

(4) Overdue loans analysed by overdue period

	30 June 2017				
	Less than 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Unsecured loans	5,567	4,238	3,763	47	13,615
Guaranteed loans	12,323	15,627	13,979	222	42,151
Loans secured by					
— Tangible assets other than monetary assets	6,395	7,488	13,760	849	28,492
— Monetary assets	2,315	2,753	3,697	53	8,818
Total	26,600	30,106	35,199	1,171	93,076
% of total loans and advances	0.98%	1.11%	1.30%	0.04%	3.44%

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)**(4) Overdue loans analysed by overdue period (continued)**

	31 December 2016				Total
	Less than 3 months	3 to 12 months	1 to 3 years	More than 3 years	
Unsecured loans	3,123	5,990	1,893	455	11,461
Guaranteed loans	12,372	18,082	11,062	134	41,650
Loans secured by					
– Tangible assets other than monetary assets	5,915	8,513	11,059	369	25,856
– Monetary assets	2,023	2,529	2,612	23	7,187
Total	23,433	35,114	26,626	981	86,154
% of total loans and advances	0.95%	1.43%	1.08%	0.04%	3.50%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)

(5) Changes in allowance for impairment losses

	30 June 2017			Total
	Corporate loans and advances		Personal loans and advances	
	Individual assessment	Collective assessment	Collective assessment	
At 1 January	(11,142)	(28,446)	(24,806)	(64,394)
Charge for the period	(4,895)	(3,998)	(8,842)	(17,735)
Release during the period	984	421	—	1,405
Reclassification	(839)	839	—	—
Transfer out	504	—	1,957	2,461
Write-offs	2,342	—	6,358	8,700
Recoveries	(547)	—	(344)	(891)
Unwinding of discount	247	—	199	446
Exchange gain or loss	—	75	—	75
At 30 June	(13,346)	(31,109)	(25,478)	(69,933)

	31 December 2016			Total
	Corporate loans and advances		Personal loans and advances	
	Individual assessment	Collective assessment	Collective assessment	
At 1 January	(6,725)	(23,742)	(19,956)	(50,423)
Charge for the year	(15,154)	(7,359)	(20,649)	(43,162)
Release during the year	1,937	11	—	1,948
Reclassification	(2,732)	2,732	—	—
Transfer out	6,029	—	4,681	10,710
Write-offs	5,590	—	11,910	17,500
Recoveries	(682)	—	(1,167)	(1,849)
Unwinding of discount	595	—	375	970
Exchange gain or loss	—	(88)	—	(88)
At 31 December	(11,142)	(28,446)	(24,806)	(64,394)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities

	Note	30 June 2017	31 December 2016
Available-for-sale securities	(1)	311,700	307,078
Held-to-maturity securities	(2)	663,652	661,362
Loans and receivables	(3)	1,019,404	1,148,729
Total		1,994,756	2,117,169
Analysed as follows:			
– Listed in Hong Kong		37,812	20,510
– Listed outside Hong Kong		880,189	924,232
– Unlisted		1,076,755	1,172,427
Total		1,994,756	2,117,169

(1) Available-for-sale securities

	30 June 2017	31 December 2016
Debt securities at fair value		
Government		
– listed in Hong Kong	67	52
– listed outside Hong Kong	62,948	65,440
– unlisted	868	894
Policy banks		
– listed in Hong Kong	1,370	108
– listed outside Hong Kong	34,692	26,292
Banking and non-banking financial institution		
– listed in Hong Kong	21,440	15,097
– listed outside Hong Kong	51,838	94,868
– unlisted	21,157	26,847
Other corporates		
– listed in Hong Kong	7,484	5,182
– listed outside Hong Kong	55,020	48,449
– unlisted	8,316	1,748
Less: allowance for impairment losses (Note (i))	(386)	(394)
Subtotal	264,814	284,583
Equity investments		
– listed in Hong Kong	83	71
– listed outside Hong Kong	888	930
– unlisted	4,235	4,626
Less: allowance for impairment losses (Note (i))	(564)	(564)
Subtotal	4,642	5,063
Investment Funds		
– unlisted	42,244	17,432
Total	311,700	307,078

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)**(1) Available-for-sale securities (continued)**

The book value of the Group's impaired available-for-sale securities amounted to RMB1,202 million as at 30 June 2017 (31 December 2016: RMB1,199 million) and the provision amounted to RMB950 million (31 December 2016: RMB958 million).

The Group did not reclassify any investment securities during the six months ended 30 June 2017 and the year ended 31 December 2016.

- (i) Changes in allowance for impairment losses of available-for-sale financial assets are as follows:

	30 June 2017		Total
	Available-for-sale debt instruments	Available-for-sale equity instruments	
At 1 January	(394)	(564)	(958)
Exchange gain or loss	8	—	8
At 30 June 2017	(386)	(564)	(950)

	31 December 2016		Total
	Available-for-sale debt instruments	Available-for-sale equity instruments	
At 1 January	(379)	(564)	(943)
Charge for the year	(36)	—	(36)
Release during the year	42	—	42
Exchange gain or loss	(21)	—	(21)
At 31 December	(394)	(564)	(958)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)**(2) Held-to-maturity securities**

Note	30 June 2017	31 December 2016
Government		
— listed outside Hong Kong	610,364	610,045
Policy banks		
— listed outside Hong Kong	20,058	25,613
Banking and non-banking financial institution		
— listed in Hong Kong	4,206	—
— listed outside Hong Kong	21,827	17,321
— unlisted	2,730	2,584
Other corporates		
— listed in Hong Kong	2,626	—
— listed outside Hong Kong	1,923	5,881
Less: allowance for impairment losses (Note (i))	(82)	(82)
Total	663,652	661,362
Fair value of securities	641,021	658,558

For the six months ended 30 June 2017, the Group did not reclassify held-to-maturity debt securities to available-for-sale debt securities. During the year of 2016, the Group reclassified held-to-maturity debt securities with a total par value of RMB26,244 million to available-for-sale debt securities. The aggregate amount of these held-to-maturity securities reclassified was insignificant relative to the total amount of the Group's held-to-maturity securities.

- (i) Changes in allowance for impairment losses of held-to-maturity securities are as follows:

	30 June 2017	31 December 2016
At 1 January	(82)	(105)
Charge for the period	—	(7)
Release during the period	—	30
At period end	(82)	(82)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)

(3) Loans and receivables

	30 June 2017	31 December 2016
Bond		
Government		
— unlisted	57,397	51,394
Policy banks		
— listed outside Hong Kong	500	500
Banking and non-banking financial institution		
— listed in Hong Kong	343	—
— listed outside Hong Kong	12,749	13,566
— unlisted	3,768	1,168
Other corporates		
— listed in Hong Kong	201	—
— listed outside Hong Kong	7,521	15,409
— unlisted	25,522	17,038
Asset management plans	898,849	1,040,867
Trust beneficiary rights	14,586	10,475
Total	1,021,436	1,150,417
Less: allowance for impairment losses (Note (i))	(2,032)	(1,688)
Net value	1,019,404	1,148,729

Note: All of the above trust beneficiary rights and asset management plans are unlisted.

(i) Changes in allowance for impairment losses of loans and receivables are as follows:

	30 June 2017	31 December 2016
At 1 January	(1,688)	(1,722)
Charge for the period	(418)	(117)
Release during the period	74	151
At period end	(2,032)	(1,688)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Long-term receivables

	Note	30 June 2017	31 December 2016
Finance lease receivables		131,303	112,992
Less: unearned finance lease income		(18,728)	(16,789)
Present value of minimum finance lease receivables		112,575	96,203
Others		—	2,029
Less: allowance for impairment losses	(1)		
Collective assessment		(1,874)	(2,263)
Individual assessment		(1,598)	(1,178)
Net balance		109,103	94,791

Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	30 June 2017			31 December 2016		
	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables
Less than 1 year	32,771	(2,975)	29,796	30,684	(2,776)	27,908
1 year to 2 years	27,781	(2,981)	24,800	23,164	(2,700)	20,464
2 years to 3 years	20,968	(2,697)	18,271	17,487	(2,232)	15,255
3 years to 5 years	20,210	(3,693)	16,517	19,546	(3,442)	16,104
More than 5 years	16,936	(4,851)	12,085	15,004	(4,843)	10,161
Indefinite*	12,637	(1,531)	11,106	7,107	(796)	6,311
	131,303	(18,728)	112,575	112,992	(16,789)	96,203

* The indefinite period amount represents the balances being impaired or overdue for more than one month.

(1) Changes in allowance for impairment losses of long-term receivables:

	30 June 2017	31 December 2016
At 1 January	(3,441)	(2,773)
Charge for the period/year	(242)	(711)
Transfer out	211	50
Recoveries	—	(7)
At period/year end	(3,472)	(3,441)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

22 Property and equipment

	Buildings	Leasehold improvement	Office equipment	Motor vehicles	Operating lease fixed assets	Construction in progress	Total
Original cost							
Balance at 1 January 2016	12,961	8,635	8,409	507	18,798	5,517	54,827
Increase	633	838	625	46	8,852	1,979	12,973
CIP transfers	790	—	—	—	—	(790)	—
Decrease	(95)	—	(319)	(29)	(1,816)	(2,080)	(4,339)
Balance at 31 December 2016	14,289	9,473	8,715	524	25,834	4,626	63,461
Increase	13	191	194	9	1,672	506	2,585
CIP transfers	89	—	—	—	—	(89)	—
Decrease	(35)	—	(12)	(5)	(909)	(51)	(1,012)
Balance at 30 June 2017	14,356	9,664	8,897	528	26,597	4,992	65,034
Accumulated depreciation							
Balance at 1 January 2016	(2,362)	(5,210)	(4,247)	(316)	(1,374)	—	(13,509)
Increase	(446)	(1,346)	(1,296)	(64)	(971)	—	(4,123)
Decrease	26	—	299	22	184	—	531
Balance at 31 December 2016	(2,782)	(6,556)	(5,244)	(358)	(2,161)	—	(17,101)
Increase	(237)	(546)	(636)	(29)	(636)	—	(2,084)
Decrease	12	—	—	5	114	—	131
Balance at 30 June 2017	(3,007)	(7,102)	(5,880)	(382)	(2,683)	—	(19,054)
Impairment losses							
Balance at 1 January 2016	—	—	—	—	(167)	—	(167)
Increase	—	—	—	—	(3)	—	(3)
Balance at 31 December 2016	—	—	—	—	(170)	—	(170)
Decrease	—	—	—	—	1	—	1
Balance at 30 June 2017	—	—	—	—	(169)	—	(169)
Net value							
Balance at 31 December 2016	11,507	2,917	3,471	166	23,503	4,626	46,190
Balance at 30 June 2017	11,349	2,562	3,017	146	23,745	4,992	45,811

As at 30 June 2017 and 31 December 2016, the Group did not have any property and equipment which were acquired by means of finance lease or temporarily idle or held for sale.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

22 Property and equipment (continued)

The carrying value of buildings and leasehold improvements is analysed by the remaining terms of the leases as follows:

	30 June 2017	31 December 2016
Held in mainland China		
on medium-term lease (10–50 years)	11,349	11,471
on short-term lease (less than 10 years)	2,561	2,953
Total	13,910	14,424

As at 30 June 2017, there were still certain properties and buildings, with a carrying value of RMB1,031 million (31 December 2016: RMB1,108 million), in the process of registration for certificates of ownership. The management believes such proceedings would not weaken the Group's rights to these assets nor have any significant impact on the Group's operations.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

23 Deferred income tax assets and liabilities**(1) Deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:**

	30 June 2017		31 December 2016	
	Deferred income tax assets/(liabilities)	Deductible/(taxable) temporary differences	Deferred income tax assets/(liabilities)	Deductible/(taxable) temporary differences
Deferred income tax assets				
Asset impairment allowance	21,891	87,564	19,760	79,040
Employee benefits payable	1,941	7,764	2,456	9,824
Fair value losses of				
— derivatives	2,442	9,769	2,347	9,389
— available-for-sale securities	987	3,947	697	2,788
— financial assets at fair value through profit or loss	—	—	45	180
Others	79	316	99	396
Subtotal	27,340	109,360	25,404	101,617
Deferred income tax liabilities				
Fair value gains of				
— derivatives	(2,345)	(9,381)	(1,940)	(7,759)
— available-for-sale securities	(70)	(280)	(98)	(392)
— financial assets at fair value through profit or loss	(17)	(68)	—	—
Subtotal	(2,432)	(9,729)	(2,038)	(8,151)
Deferred income tax assets, net	24,908	99,631	23,366	93,466

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

23 Deferred income tax assets and liabilities (continued)

- (2) Movements in deferred income tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

	Asset impairment allowance	Fair value losses	Others	Gross deferred income tax assets	Fair value gains	Gross deferred income tax liabilities
At 1 January 2017	19,760	3,089	2,555	25,404	(2,038)	(2,038)
Recognised in profit or loss	2,131	288	(535)	1,884	(422)	(422)
Recognised in other comprehensive income	—	52	—	52	28	28
At 30 June 2017	21,891	3,429	2,020	27,340	(2,432)	(2,432)
At 1 January 2016	14,219	1,300	2,561	18,080	(2,217)	(2,217)
Recognised in profit or loss	5,541	1,308	(6)	6,843	(633)	(633)
Recognised in other comprehensive income	—	481	—	481	812	812
At 31 December 2016	19,760	3,089	2,555	25,404	(2,038)	(2,038)

- (3) Offsetting of balances within the same tax jurisdiction of deferred income tax assets and liabilities are as follows:

	30 June 2017	31 December 2016
Deferred income tax assets	—	—
Deferred income tax liabilities	(2,432)	(2,038)

- (4) Deferred income tax assets and liabilities taking into consideration the offsetting of balances within the same tax jurisdiction are as follows:

	30 June 2017		31 December 2016	
	Net deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences after offsetting	Net deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences after offsetting
Deferred income tax assets	24,908	99,631	23,366	93,466
Deferred income tax liabilities	—	—	—	—

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

24 Investment in subsidiaries

	30 June 2017	31 December 2016
Minsheng Financial Leasing	2,600	2,600
CMBC International	1,614	1,614
Minsheng Royal Fund	190	190
Pengzhou Rural Bank	20	20
Cixi Rural Bank	35	35
Songjiang Rural Bank	70	70
Qijiang Rural Bank	30	30
Tongnan Rural Bank	25	25
Meihekou Rural Bank	26	26
Ziyang Rural Bank	41	41
Jiangxia Rural Bank	41	41
Changyuan Rural Bank	26	26
Yidu Rural Bank	26	26
Jiading Rural Bank	102	102
Zhongxiang Rural Bank	36	36
Penglai Rural Bank	51	51
Anxi Rural Bank	51	51
Funing Rural Bank	52	52
Taicang Rural Bank	76	76
Ningjin Rural Bank	20	20
Zhangpu Rural Bank	25	25
Puer Rural Bank	15	15
Jinghong Rural Bank	15	15
Zhidan Rural Bank	7	7
Ningguo Rural Bank	20	20
Yuyang Rural Bank	25	25
Guichi Rural Bank	26	26
Tiantai Rural Bank	31	31
Tianchang Rural Bank	20	20
Tengchong Rural Bank	20	20
Xiang'an Rural Bank	36	36
Linzhi Rural Bank	13	13
Total	5,385	5,385

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

24 Investment in subsidiaries (continued)

Name	Place of incorporation and operation	Principal activities	Registered capital	Nature of legal entity	% of ownership held by the Bank	% of voting rights held by the Bank
Minsheng Financial Leasing	Tianjin China	Leasing	RMB5,095 million	Limited company	51.03	51.03
Minsheng Royal Fund	Guangdong China	Fund management	RMB300 million	Limited company	63.33	63.33
CMBC International	Hongkong China	Invest bank	HKD2,000 million	Limited company	100.00	100.00
Pengzhou Rural Bank	Sichuan China	Commercial bank	RMB55 million	Limited company	36.36	36.36
Cixi Rural Bank	Zhejiang China	Commercial bank	RMB100 million	Limited company	35	35
Songjiang Rural Bank	Shanghai China	Commercial bank	RMB150 million	Limited company	35	35
Qijiang Rural Bank	Chongqing China	Commercial bank	RMB60 million	Limited company	50	50
Tongnan Rural Bank	Chongqing China	Commercial bank	RMB50 million	Limited company	50	50
Meihoukou Rural Bank	Jilin China	Commercial bank	RMB50 Million	Limited company	51	51
Ziyang Rural Bank	Sichuan China	Commercial bank	RMB80 million	Limited company	51	51
Jiangxia Rural Bank	Hubei China	Commercial bank	RMB80 million	Limited company	51	51
Changyuan Rural Bank	Henan China	Commercial bank	RMB50 million	Limited company	51	51
Yidu Rural Bank	Hubei China	Commercial bank	RMB50 million	Limited company	51	51
Jiading Rural Bank	Shanghai China	Commercial bank	RMB200 million	Limited company	51	51
Zhongxiang Rural Bank	Hubei China	Commercial bank	RMB70 million	Limited company	51	51
Penglai Rural Bank	Shandong China	Commercial bank	RMB100 million	Limited company	51	51
Anxi Rural Bank	Fujian China	Commercial bank	RMB100 million	Limited company	51	51

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

24 Investment in subsidiaries (continued)

Name	Place of incorporation and operation	Principal activities	Registered capital	Nature of legal entity	% of ownership held by the Bank	% of voting rights held by the Bank
Funing Rural Bank	Jiangsu China	Commercial bank	RMB85 million	Limited company	51	51
Taicang Rural Bank	Jiangsu China	Commercial bank	RMB135 million	Limited company	51	51
Ningjin Rural Bank	Hebei China	Commercial bank	RMB40 million	Limited company	51	51
Zhangpu Rural Bank	Fujian China	Commercial bank	RMB50 million	Limited company	51	51
Puer Rural Bank	Yunnan China	Commercial bank	RMB30 million	Limited company	51	51
Jinghong Rural Bank	Yunnan China	Commercial bank	RMB30 million	Limited company	51	51
Zhidan Rural Bank	Shaanxi China	Commercial bank	RMB15 million	Limited company	51	51
Ningguo Rural Bank	Anhui China	Commercial bank	RMB40 million	Limited company	51	51
Yuyang Rural Bank	Shaanxi China	Commercial bank	RMB50 million	Limited company	51	51
Guichi Rural Bank	Anhui China	Commercial bank	RMB50 million	Limited company	51	51
Tiantai Rural Bank	Zhejiang China	Commercial bank	RMB60 million	Limited company	51	51
Tianchang Rural Bank	Anhui China	Commercial bank	RMB40 million	Limited company	51	51
Tengchong Rural Bank	Yunnan China	Commercial bank	RMB40 million	Limited company	51	51
Xiang'an Rural Bank	Fujian China	Commercial bank	RMB70 million	Limited company	51	51
Linzhi Rural Bank	Tibet China	Commercial bank	RMB25 million	Limited company	51	51

All interests in subsidiaries are directly held by the Bank.

Although the Bank holds half or less than half of the voting rights in some rural banks, it has the majority of the seats in their boards of directors, which enables it to govern their operating policies. These companies are treated as the Bank's subsidiaries and have been consolidated in these financial statements.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

25 Other assets

	Note	30 June 2017			31 December 2016		
		Gross balance	Allowance for impairment losses (Note (i))	Carrying amount	Gross balance	Allowance for impairment losses (Note(i))	Carrying amount
Items in the process of clearance and settlement		41,249	—	41,249	28,871	—	28,871
Interest receivable	(1)	35,285	—	35,285	31,516	—	31,516
Prepayments for leased assets	(2)	11,602	(204)	11,398	14,254	(178)	14,076
Repossessed assets	(3)	11,444	(81)	11,363	12,114	(81)	12,033
Investment properties		6,729	—	6,729	6,523	—	6,523
Land use right		4,104	—	4,104	4,164	—	4,164
Commission receivable		3,340	—	3,340	3,474	—	3,474
Prepayment		1,009	—	1,009	1,883	—	1,883
Claims and legal fees recoverable		1,430	(695)	735	1,312	(603)	709
Intangible assets	(4)	914	—	914	948	—	948
Long-term deferred expenses		153	—	153	168	—	168
Goodwill	(5)	219	—	219	6	—	6
Others		6,969	(6)	6,963	6,241	(7)	6,234
Total		124,447	(986)	123,461	111,474	(869)	110,605

(i) Changes in allowance for impairment losses of other assets are as follows:

	30 June 2017	31 December 2016
At 1 January	(869)	(578)
Charge for the period/year	(332)	(336)
Transfer out	215	45
At 30 June/31 December	(986)	(869)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

25 Other assets (continued)**(1) Interest receivable**

	30 June 2017	31 December 2016
Loans and advances to customers	17,295	13,518
Debt and other securities	14,877	15,444
Others	3,113	2,554
Total	35,285	31,516

(2) Prepayments for leased assets

Prepayments for leased assets are the prepayments made by the Group for acquiring leased assets under finance leases and operating leases.

(3) Repossessed assets

Repossessed assets include buildings and land use right. The Group disposed repossessed assets of RMB1,136 million during the period ended 30 June 2017 (31 December 2016: RMB2,560 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

25 Other assets (continued)**(4) Intangible assets**

	Software	Other	Total
Cost			
Balance at 1 January 2016	1,570	1,329	2,899
Increase	318	—	318
Decrease	(2)	—	(2)
Balance at 31 December 2016	1,886	1,329	3,215
Increase	128	—	128
Balance at 30 June 2017	2,014	1,329	3,343
Accumulated amortisation			
Balance at 1 January 2016	(1,006)	(915)	(1,921)
Increase	(308)	(38)	(346)
Balance at 31 December 2016	(1,314)	(953)	(2,267)
Increase	(150)	(12)	(162)
Balance at 30 June 2017	(1,464)	(965)	(2,429)
Net value			
Balance at 31 December 2016	572	376	948
Balance at 30 June 2017	550	364	914

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

25 Other assets (continued)**(5) Goodwill**

	30 June 2017	31 December 2016
At 1 January 2017	6	—
Acquisition of subsidiaries	213	6
Gross amount	219	6
Impairment	—	—
Net amount	219	6

Goodwill arising from business combinations has been allocated to the Group's Cash Generating Unit, which is not larger than the reportable segment of the Group, for impairment testing.

Management believes that there is no indication of impairment on goodwill as at 30 June 2017 and 31 December 2016.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Deposits from customers

	30 June 2017	31 December 2016
Demand deposits		
— Corporate deposits	1,113,091	1,141,097
— Personal deposits	183,643	167,686
Time deposits (including call and notice deposits)		
— Corporate deposits	1,343,630	1,381,135
— Personal deposits	363,611	372,862
Certificates of deposit	12,393	12,792
Outward remittance and remittance payables	6,759	6,670
Total	3,023,127	3,082,242

The pledged deposits included in deposits from customers are analysed as follows:

	30 June 2017	31 December 2016
Pledged deposits for bank acceptances	140,915	177,867
Pledged deposits for letters of credit and guarantees	31,533	28,793
Other pledged deposits	122,752	84,125
Total	295,200	290,785

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

27 Deposits and placements from banks and other financial institutions

	30 June 2017	31 December 2016
Mainland China		
– Banks	369,827	516,434
– Other financial institutions	687,350	848,768
Overseas		
– Banks	104,660	29,639
– Other financial institutions	10,907	13,178
Total	1,172,744	1,408,019

28 Financial assets sold under repurchase agreements

	30 June 2017	31 December 2016
Discounted bills	49,587	72,201
Investment securities	40,813	40,789
Long-term receivables	128	265
Total	90,528	113,255

As at 30 June 2017, the balances under repurchase agreements include bills transactions with the PBOC amounting to RMB9,144 million (31 December 2016: RMB5,247 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

29 Borrowings from banks and other financial institutions

	30 June 2017	31 December 2016
Credit borrowings	120,349	105,743
Secured borrowings		
— by tangible assets other than monetary assets	20,017	16,731
Total	140,366	122,474

As at 30 June 2017, the secured borrowings of RMB20,017 million (31 December 2016: RMB16,731 million) consisted of property and equipment of RMB10,181 million (31 December 2016: RMB8,838 million) and the mortgaged assets under finance lease receivables of RMB14,607 million (31 December 2016: RMB12,976 million) as collateral; there was no other assets as collateral (31 December 2016: Nil). There was no remaining credit limit under such secured borrowings (31 December 2016: Nil).

30 Debt securities issued

	Note	30 June 2017	31 December 2016
Interbank negotiable certificates of deposit		403,456	255,345
Financial bonds	(1)	49,943	69,969
Tier-two capital bonds	(2)	59,933	59,930
Subordinated bonds	(3)	3,994	3,994
Hybrid capital bonds	(4)	4,993	4,992
Medium-term notes	(5)	7,432	4,146
Total		529,751	398,376

There were no overdue principal and interest or other defaults with respect to these bonds. None of these bonds are secured.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

30 Debt securities issued (continued)**(1) Financial bonds**

	Note	30 June 2017	31 December 2016
RMB30.0 billion — 5-year fixed rate financial bonds 2012	(i)	—	29,999
RMB20.0 billion — 5-year fixed rate financial bonds 2012	(ii)	—	19,998
RMB20.0 billion — 3-year fixed rate financial bonds 2016	(iii)	19,978	19,972
RMB30.0 billion — 3-year fixed rate financial bonds 2017	(iv)	29,965	—
Total		49,943	69,969

- (i) RMB30.0 billion worth of fixed-rate financial bonds were issued in 2012, with a term of five years, and a fixed coupon rate of 4.30% per annum.
- (ii) RMB20.0 billion worth of fixed-rate financial bonds were issued in 2012, with a term of five years, and a fixed coupon rate of 4.39% per annum.
- (iii) RMB20.0 billion worth of fixed-rate financial bonds were issued in 2016, with a term of three years, and a fixed coupon rate of 2.95% per annum.
- (iv) RMB30.0 billion worth of fixed-rate financial bonds were issued in 2017, with a term of three years, and a fixed coupon rate of 4.00% per annum.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

30 Debt securities issued (continued)**(2) Tier-two capital bonds**

	Note	30 June 2017	31 December 2016
RMB20.0 billion — 10-year fixed rate tier-two capital bonds 2014	(i)	19,980	19,979
RMB20.0 billion — 10-year fixed rate tier-two capital bonds 2015	(ii)	19,980	19,979
RMB20.0 billion — 10-year fixed rate tier-two capital bonds 2016	(iii)	19,973	19,972
Total		59,933	59,930

- (i) Tier-two capital bonds with a nominal value of RMB20.0 billion, a term of 10 years, and a fixed coupon rate of 6.60% per annum, were issued in 2014. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the fifth year to the maturity date.
- (ii) Tier-two capital bonds with a nominal value of RMB20.0 billion, a term of 10 years, and a fixed coupon rate of 5.40% per annum, were issued in 2015. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the fifth year to the maturity date.
- (iii) Tier-two capital bonds with a nominal value of RMB20.0 billion, a term of 10 years, and a fixed coupon rate of 3.50% per annum, were issued in 2016. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the fifth year to the maturity date.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

30 Debt securities issued (continued)**(3) Subordinated bonds**

	Note	30 June 2017	31 December 2016
RMB4.0 billion — 15-year subordinated fixed rate bonds 2011	(i)	3,994	3,994
Total		3,994	3,994

- (i) Subordinated bonds with a nominal value of RMB4.0 billion, a term of 15 years and a fixed coupon rate of 5.70% per annum, were issued in 2011. The Bank has an option to redeem all or part of the subordinated bonds at par value during the period from the last day of the tenth year to the maturity date.

According to the issuance terms, these bonds are subordinated to all other claims against the Bank's assets, except those of the hybrid capital bond holders and shareholders.

(4) Hybrid capital bonds

	Note	30 June 2017	31 December 2016
RMB3.325 billion — 15-year hybrid capital fixed rate bonds 2009	(i)	3,320	3,320
RMB1.675 billion — 15-year hybrid capital floating rate bonds 2009	(ii)	1,673	1,672
Total		4,993	4,992

- (i) Hybrid capital bonds with a nominal value of RMB3.325 billion, a term of 15 years and a fixed coupon rate is 5.70% per annum for the first 10 years, were issued in 2009. And if the Bank does not exercise the early redemption right from the 11th year onward, the coupon rate will increase to 8.70% per annum.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

30 Debt securities issued (continued)**(4) Hybrid capital bonds (continued)**

- (ii) Hybrid capital bonds with a nominal value of RMB1.675 billion, a term of 15 years and of floating-rate, were issued in 2009. The floating rate is based on the one-year time deposit rate published by the PBOC plus a spread of 3.00% per annum for the first 10 years. If the Bank does not exercise the early redemption right from the 11th year onward, the spread will increase to 6.00% per annum.

The holders of the hybrid capital bonds are subordinated to holders of subordinated bonds, but have priority over shareholders. All holders of hybrid capital bonds enjoy the same priority of claim. According to the issuance terms, the Bank has an option to defer interest payment if the core capital adequacy ratio calculated based on its latest audited financial reports is below 4%. If the sum of surplus reserve plus retained earnings shown on the latest audited statement of financial position is negative and no cash dividend has been paid to ordinary equity shareholders in the last 12 months, the Bank must defer interest payment.

(5) Medium-term notes

	Note	30 June 2017	31 December 2016
USD0.6 billion — 3-year medium-term notes 2015	(i)	4,055	4,146
USD0.5 billion — 3-year medium-term notes 2017	(ii)	3,377	—
Total		7,432	4,146

- (i) Medium-term notes with a nominal value of USD0.6 billion of medium-term notes were issued in 2015, with a term of 3 years. The coupon rate is 2.25%.
- (ii) Medium-term notes with a nominal value of USD0.5 billion of medium-term notes were issued in 2017, with a term of 3 years. The coupon rate is 2.50%.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Other liabilities

	Note	30 June 2017	31 December 2016
Interest payable	(1)	40,891	36,494
Items in the process of clearance and settlement		12,484	14,487
Receipt in advance		10,058	10,257
Employee benefits payable	(2)	7,893	10,107
Dividends payable		6,030	—
Other tax payable	(3)	3,190	3,087
Accrued expenses		490	561
Deferred fee and commission income		459	348
Guarantee deposits for finance lease		326	319
Payable for long-term assets		291	400
Others		9,392	7,453
Total		91,504	83,513

(1) Interest payable

	30 June 2017	31 December 2016
Deposits from customers	26,054	25,800
Deposits from banks and other financial institutions	6,015	2,751
Debt securities issued	2,076	4,190
Borrowings from banks and other financial institutions	639	450
Others	6,107	3,303
Total	40,891	36,494

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Other liabilities (continued)**(2) Employee benefits payable**

	At 1 January 2017	Increase	Decrease	At 30 June 2017
Short-term employee benefits				
Salaries, bonuses and allowances	9,784	5,646	(8,036)	7,394
Staff welfare fees	—	758	(758)	—
Social insurance and supplementary insurance	47	637	(621)	63
Housing fund	117	532	(454)	195
Labour union fee, staff and workers' education fee	38	142	(115)	65
Subtotal	9,986	7,715	(9,984)	7,717
Post-employment benefits-defined contribution plans				
Basic pension insurance plans	89	598	(548)	139
Unemployment insurance	12	26	(22)	16
Annuity scheme	20	440	(439)	21
Subtotal	121	1,064	(1,009)	176
Total	10,107	8,779	(10,993)	7,893

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Other liabilities (continued)**(2) Employee benefits payable (continued)**

	At 1 January 2016	Increase	Decrease	At 31 December 2016
Short-term employee benefits				
Salaries, bonuses and allowances	8,781	17,509	(16,506)	9,784
Staff welfare fees	—	2,271	(2,271)	—
Social insurance and supplementary insurance	37	1,362	(1,352)	47
Housing fund	111	1,039	(1,033)	117
Labour union fee, staff and workers' education fee	25	593	(580)	38
Subtotal	8,954	22,774	(21,742)	9,986
Post-employment benefits- defined contribution plans				
Basic pension insurance plans	70	1,103	(1,084)	89
Unemployment insurance	11	56	(55)	12
Annuity scheme	105	1,149	(1,234)	20
Subtotal	186	2,308	(2,373)	121
Total	9,140	25,082	(24,115)	10,107

(3) Other tax payable

	30 June 2017	31 December 2016
Value added tax	2,555	2,144
Others	635	943
Total	3,190	3,087

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

32 Share capital and capital reserve

	30 June 2017	31 December 2016
Ordinary shares listed in Mainland China (A share)	29,551	29,551
Ordinary shares listed in Hong Kong (H share)	6,934	6,934
Total shares	36,485	36,485

All A shares and H shares are with no selling restrictions and rank pari passu with the same rights and benefits.

The Group's capital reserve of RMB64,744 million as at 30 June 2017 (31 December 2016: RMB64,744 million), mainly represents capital premium.

33 Preference shares**(1) Preference shares outstanding at 30 June 2017**

Financial instrument outstanding	Issue date	Accounting classification	Dividend rate	Issue price	Amount million shares	In original currency million	In RMB million	Maturity	Conversion condition	Conversion
Overseas Preference Shares	14 Dec 2016	Equity	4.95%	20USD/ Share	72	1,439	9,933	None	Mandatory	No
Total							9,933			
Less: Issue fees							(41)			
Book value							9,892			

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

33 Preference shares (continued)

(2) Main Clauses

a Dividend

Fixed rate for a certain period after issuance. Dividend reset every 5 years thereafter to the sum of the benchmark rate and the Fixed Spread. The Fixed Spread will be equal to the spread between the dividend rate at the time of issuance and the benchmark rate. The Fixed Spread will remain unchanged throughout the term of the Preference Shares. Dividends will be paid annually.

b Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Group are senior to the ordinary shareholders on the right to dividends. The Group may elect to cancel any dividend, but such cancellation will require a shareholder's resolution to be passed.

c Dividend stopper

If the Group cancels all or part of the dividends to the Preference Shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the Preference Shareholders in full.

d Order of distribution and liquidation method

The USD Preference Shareholders rank equally for payment. The Preference Shareholders will be subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of convertible bonds, holders of Tier 2 capital bonds and holders of other Tier 2 capital instruments of the Group, but will be senior to the ordinary shareholders.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

33 Preference shares (continued)

(2) Main Clauses (continued)

e Mandatory conversion trigger events

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the Preference Shares into H shares, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Group to above 5.125%; If Preference Shares were converted to H shares, it could not be converted to Preference Shares again.

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all Preference Shares into H shares. If Preference Shares were converted to H shares, it could not be converted to Preference Shares again.

f Redemption

Under the premise of obtaining the approval of the CBRC and condition of redemption, the Group has right to redeem all or some of oversee preferred stocks in first call date and subsequent any dividend payment date. The first call date after issuance and subsequent any dividend payment date (redemption price is equal to issue price plus accrued dividend in current period).

The First Redemption Date of USD Preference Shares is five years after issuance.

g Dividend setting mechanism

Non-cumulative dividend is a dividend on preference shares which does not cumulate upon omission of payment so as to require payment of a passed or omitted dividend of one year out of earnings of a following year. After receiving dividend at agreed dividend rate, preference shareholders of the Group will not participate the distribution of residual profits with ordinary shareholders.

The Group shall distribute dividends for the Preference Shares in cash, based on the total amount of the issued and outstanding Preference Shares on the corresponding times (i.e. the product of the issue price of preference shares and the number of the issued and outstanding preference shares).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

34 Surplus reserve, general reserve and retained earnings

(1) Surplus reserve

Under PRC laws, Articles of the Bank and the resolution of the Board of Directors, the Bank is required to appropriate 10% of its net profit, when the statutory surplus reserve reaches 50% of its registered capital, the Bank is still required to appropriate 10% of its net profit. Subject to the approval of the equity shareholders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the share capital.

Pursuant to the resolution of the meeting of Board of Directors held on 28 August 2017, the Bank appropriated RMB2,753 million to statutory surplus reserve during the period ended 30 June 2017 (for the year ended 31 December 2016: RMB4,691 million).

The Bank did not appropriate discretionary surplus reserve during the six months ended 30 June 2017 and the year ended 31 December 2016.

(2) General reserve

As at 30 June 2017, pursuant to the *Measures for Managing the Appropriation of Provisions of Financial Enterprises* (Cai Jin [2012] No. 20) issued by the MOF, the Bank is required to provide for impairment losses of its assets and set aside a general reserve through the appropriation of net profits to cover potential losses against its assets. The general reserve is part of the equity shareholders' interests and should not be less than 1.5% of the year-end balance of risk-bearing assets.

The Bank's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

Pursuant to the resolution of the meeting of Board of Directors held on 28 August 2017, the Bank appropriated RMB109 million of profits recorded to the general reserve during the period ended 30 June 2017 (For the year ended 31 December 2016: RMB16,515 million).

(3) Retained earnings

As at 30 June 2017, the retained earnings included the statutory surplus reserve of RMB507 million contributed by the subsidiaries and attributable to the Bank (31 December 2016: RMB498 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

35 Non-controlling interests

As at 30 June 2017, the non-controlling interests of the subsidiaries are RMB10,327 million (31 December 2016: RMB9,437 million).

36 Dividends

Dividends for Ordinary Shares

The Board of Directors approved the cash dividend distribution plan for the first half of 2017 during the meeting of the Board of Directors held on 28 August 2017. The cash dividend declared was RMB1.20 (before tax) for every 10 shares. A total dividend of RMB4,378 million was based on total stock of 36,485 million as at 30 June 2017.

The shareholders approved the cash dividend distribution plan for the second half of 2016 at the Annual General Meeting on 16 June 2017. The cash dividend declared was RMB1.65 (before tax) for every 10 shares, amounting to a total dividend of RMB6,020 million.

The Board of Directors approved the cash dividend distribution plan for the first half of 2016 during the meeting of the Board of Directors held on 29 August 2016. The cash dividend declared was RMB1.15 (before tax) for every 10 shares, amounting to a total dividend of RMB4,196 million.

The shareholders approved the cash dividend distribution plan for the second half of 2015 at the Annual General Meeting on 7 June 2016. The cash dividend declared was RMB1.60 (before tax) for every 10 shares, amounting to a total dividend of RMB5,838 million.

The shareholders approved the cash dividend distribution plan for the first half of 2015 during the first Extraordinary General Meeting held on 1 February 2016. The cash dividend declared was RMB0.75 (before tax) for every 10 shares, amounting to a total dividend of RMB2,736 million.

Dividends for Preference Shares

In accordance with the cash dividend distribution plan approved by the Board of Directors on 28 August 2017, the Board will declare dividends for the preference shares before the dividend payment date. The amount of dividends for the preference shares for the whole year is USD71 million. The detailed distribution plan will be issued by the Board of Directors before the dividend payment date.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

37 Investment revaluation reserve and cash flow hedging reserve

Investment revaluation reserve and cash flow hedging reserve attributable to equity holders of the Bank in the consolidated statement of financial position:

	Investment revaluation reserve	Cash flow hedging reserve	Total
As at 1 January 2016	1,291	—	1,291
Changes in amount for the previous year	(3,125)	(721)	(3,846)
As at 31 December 2016	(1,834)	(721)	(2,555)
Changes in amount for the period	(998)	715	(283)
As at 30 June 2017	(2,832)	(6)	(2,838)

38 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows consist of the following:

	30 June 2017	30 June 2016
Cash (Note 13)	6,775	8,162
Surplus deposit reserve with central bank (Note 13)	6,217	75,540
Original maturity within 3 months:		
— Balances with banks and other financial institutions	42,668	76,799
— Placements with banks and other financial institutions	27,323	66,114
Total	82,983	226,615

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

39 Transferred 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 structured entities. 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 recognise the transferred assets.

Credit asset-backed securities

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

Certain securitisations undertaken by the Group result in the Group derecognising transferred assets in their entirety. This is the case when the Group transfers substantially all of the risks and rewards of ownership of financial assets to an unconsolidated securitisation vehicle and retains a relatively small interest in the vehicle or a servicing arrangement in respect of the transferred financial assets. As at 30 June 2017, loans with an original carrying amount of RMB35,800 million have been securitised by the Group (31 December 2016: RMB56,607 million). As at 30 June 2017, the carrying amount of prime grade assets that the Group continues to recognise was RMB280 million (31 December 2016: RMB585 million), and the carrying amount of subordinated grade assets that the Group continues to recognise was RMB222 million (31 December 2016: RMB235 million), the assets were classified as loans and receivables.

Besides the securitisation transaction above, as at 30 June 2017, loans with an original carrying amount of RMB9,869 million (31 December 2016: RMB9,869 million) have been transferred to securitisation vehicles in which the Group does not retain or transfer substantially all of the risks and rewards. As at 30 June 2017, the carrying amount of assets that the Group continued to recognise was RMB1,038 million (31 December 2016: RMB1,038 million). The carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB1,038 million (31 December 2016: RMB1,038 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

40 Contingent liabilities and commitments**(1) Credit commitments**

Credit commitments take the form of approved loans with signed contracts, credit card limits, financial guarantees and letters of credit. The Group regularly assesses the contingent losses of its credit commitments and makes allowances where necessary.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties fail to fully perform as contracted. 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.

As the credit facilities may expire without being drawn upon, the contract amounts set out in the following table do not represent expected future cash outflows.

	30 June 2017	31 December 2016
Bank acceptances	524,803	612,583
Guarantees	152,096	196,566
Letters of credit	124,249	110,330
Unused credit card commitments	89,120	63,335
Finance lease commitments	4,431	6,821
Irrevocable loan commitments		
— original maturity date within 1 year	1,609	138
— original maturity date over 1 year (inclusive)	2,501	8,497
Total	898,809	998,270

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

40 Contingent liabilities and commitments (continued)**(2) Capital commitments**

	30 June 2017	31 December 2016
Contracted but not paid for	21,955	13,784
Authorised but not contracted for	32	7
Total	21,987	13,791

(3) Operating lease commitments

The future minimum lease payments under non-cancellable operating lease of the Group are summarised as follows:

	30 June 2017	31 December 2016
Within 1 year	8,480	5,199
After 1 year but within 5 years	4,838	8,602
After 5 years	1,071	2,770
Total	14,389	16,571

(4) Fulfilment of commitments of prior period

The Group had fulfilled the capital commitments and operating lease commitments as at 30 June 2017, in material respects, as specified in the contracts.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

40 Contingent liabilities and commitments (continued)**(5) Assets pledged**

	30 June 2017	31 December 2016
Discounted bills	49,587	72,201
Investment securities	41,182	40,365
Finance lease receivables	14,735	12,991
Property and equipment	12,022	8,838
Other assets	—	12
Total	117,526	134,407

As at 30 June 2017, the Group's pledged assets include discounted bills under repurchase agreements that can be sold or repledged. The fair value of such pledged assets was RMB5,328 million as at 30 June 2017 (31 December 2016: RMB40,674 million). As at 30 June 2017, the Group has sold or repledged RMB627 million of such pledged assets (31 December 2016: RMB1,854 million). The Group has an obligation to repurchase these pledged assets on due dates.

(6) Underwriting of securities

	30 June 2017	31 December 2016
Medium and short-term finance bills	363,566	224,561

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

40 Contingent liabilities and commitments (continued)

(7) Redemption commitments

As an underwriting agent of certificated PRC government bonds, the Bank has the obligation to buy back those bonds sold by it should the holders decide to redeem the bonds early. 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. The amount of redemption obligation, which represents the nominal value of government bonds underwritten and sold by the Bank, but not yet matured as at 30 June 2017 was RMB4,022 million (31 December 2016: RMB3,924 million). The original maturities of the bonds vary from one to five years.

(8) Outstanding litigation

A number of outstanding litigation matters against the Group had arisen in the normal course of its business as at 30 June 2017. With consideration of the professional advice, the Group's management believes such litigation will not have a significant impact on the Group.

41 Consolidated structured entities

The Group has consolidated certain structured entities which are asset management plans. When assessing whether to consolidate structured entities, the Bank reviews all facts and circumstances to determine whether the Bank, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties. The Group does not hold any shares of the consolidated asset management plans, however, the Group has the authority to exercise the right of making investment decisions as a main administrator, and the proportion of group's total revenue in total investment income is high. The Group concludes that these structured entities shall be consolidated.

As at 30 June 2017, the asset management plans managed and consolidated by the Group amounted to RMB54 million (31 December 2016: RMB3,835 million). The financial impact of any individual asset management plan on the Group's financial performance is not significant.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

42 Involvement with unconsolidated structured entities**(1) Structured entities sponsored by third party institutions in which the Group holds an interest**

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include trust beneficiary plan, specialised asset management plans and asset-backed financings 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 including the Group.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 30 June 2017 in the structured entities sponsored by third party institutions:

	30 June 2017	
	Carrying amount	Maximum exposure
Trust beneficiary plans	15,660	15,660
Specialised asset management plans	896,899	896,899
Asset-backed financings	39,468	39,468
Total	952,027	952,027

	31 December 2016	
	Carrying amount	Maximum exposure
Trust beneficiary plans	12,183	12,183
Specialised asset management plans	1,039,288	1,039,288
Asset-backed financings	33,076	33,076
Total	1,084,547	1,084,547

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

42 Involvement with unconsolidated structured entities (continued)**(1) Structured entities sponsored by third party institutions in which the Group holds an interest (continued)**

The following table sets out an analysis of the line items in the statement of financial position as at 30 June 2017 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2017		
	Loans and receivables	Available-for-sale financial assets	Financial assets held under resale agreements
Trust beneficiary plans	14,510	—	1,150
Specialised asset management plans	896,899	—	—
Asset-backed financings	27,811	11,657	—
Total	939,220	11,657	1,150

	31 December 2016		
	Loans and receivables	Available-for-sale financial assets	Financial assets held under resale agreements
Trust beneficiary plans	10,366	—	1,817
Specialised asset management plans	1,039,288	—	—
Asset-backed financings	30,062	3,014	—
Total	1,079,716	3,014	1,817

The maximum exposures to loss in the above trust beneficiary plan, segregated asset management plans 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 statement of financial positions.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

42 Involvement with unconsolidated structured entities (continued)**(2) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest**

The types of unconsolidated structured entities sponsored by the Group include investment funds and non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes investments in notes issued by these structured entities and fees charged by providing management services. As at 30 June 2017 and 31 December 2016, the carrying amounts of the Group's investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

As at 30 June 2017, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products and investment funds, which are sponsored by the Group, are RMB912,668 million and RMB445,197 million respectively (31 December 2016: RMB1,177,113 million and RMB668,926 million).

(3) Structured entities sponsored by the Group during the reporting period which the Group does not consolidate and holds an interest at 30 June 2017

During the period ended 30 June 2017, the amount of fee and commission income received from the abovementioned structured entities by the Group is RMB5,442 million (for the six months ended 30 June 2016: RMB5,621 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2017 but matured before 30 June 2017 is RMB482,484 million (for the year ended 31 December 2016: RMB1,246,412 million).

43 Fiduciary activities

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

The balance of investment fund under custodian by the Group was RMB482,909 million as at 30 June 2017 (31 December 2016: RMB293,286 million). The balance of corporate annuity funds under custodian by the Group was RMB48,411 million as at 30 June 2017 (31 December 2016: RMB57,279 million). The balance of entrusted credit assets under management by the Group was RMB34,404 million as at 30 June 2017 (31 December 2016: RMB33,606 million). And the Group's balances of entrusted loans were RMB419,194 million as at 30 June 2017 (31 December 2016: RMB428,277 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Fair value of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date. This level includes listed equity securities and debt instruments on exchanges (e.g. London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchange-traded derivatives like futures (e.g. Nasdaq, S&P 500).
- Level 2: inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly. A majority of the debt securities classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data. This level includes a majority of OTC derivative contracts, traded loans and issued structured debts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Bloomberg and Reuters.
- Level 3: unobservable inputs for assets or liabilities. This level includes equity investments and debt instruments with one or more than one significant unobservable component. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 30 June 2017, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Fair value of financial instruments (continued)**(1) Financial instruments recorded at fair value**

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	30 June 2017			Total
	Level 1	Level 2	Level 3	
Assets				
Financial assets which are measured at fair value on a recurring basis:				
Financial assets at fair value through profit or loss				
Debt securities	14,449	38,274	—	52,723
Equity investments	209	—	—	209
Investment funds	868	—	—	868
Financial assets designated at fair value through profit or loss				
Debt securities	292	7,076	—	7,368
Equity investments	—	—	3,526	3,526
Investment funds	1,882	—	—	1,882
Derivative financial assets				
Interest rate contracts	—	244	—	244
Exchange rate contracts	—	7,597	—	7,597
Others	—	1,875	6	1,881
Available-for-sale financial assets				
Debt securities	44,012	220,744	58	264,814
Equity investments	693	278	3,520	4,491
Investment funds	42,244	—	—	42,244
Total	104,649	276,088	7,110	387,847
Liabilities				
Financial liabilities which are measured at fair value on a recurring basis:				
Derivative financial liabilities				
Interest rate contracts	—	(104)	—	(104)
Exchange rate contracts	—	(8,548)	—	(8,548)
Others	—	(1,136)	—	(1,136)
Financial liabilities at fair value through profit or loss				
	(627)	—	—	(627)
Total	(627)	(9,788)	—	(10,415)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Fair value of financial instruments (continued)**(1) Financial instruments recorded at fair value (continued)**

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy: (continued)

	31 December 2016			Total
	Level 1	Level 2	Level 3	
Assets				
Financial assets which are measured at fair value on a recurring basis:				
Financial assets at fair value through profit or loss				
Debt securities	8,024	62,760	—	70,784
Equity investments	254	—	472	726
Investment funds	12,304	—	—	12,304
Financial assets designated at fair value through profit or loss				
Debt securities	346	4,466	—	4,812
Investment funds	1,114	—	—	1,114
Derivative financial assets				
Interest rate contracts	—	104	—	104
Exchange rate contracts	—	4,875	—	4,875
Others	2	2,778	84	2,864
Available-for-sale financial assets				
Debt securities	40,247	244,322	14	284,583
Equity investments	736	265	3,911	4,912
Investment funds	17,432	—	—	17,432
Total	80,459	319,570	4,481	404,510
Liabilities				
Financial liabilities which are measured at fair value on a recurring basis:				
Derivative financial liabilities				
Interest rate contracts	—	(141)	—	(141)
Exchange rate contracts	—	(8,158)	—	(8,158)
Others	—	(1,978)	—	(1,978)
Financial liabilities at fair value through profit or loss				
	(868)	—	—	(868)
Total	(868)	(10,277)	—	(11,145)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Fair value of financial instruments (continued)**(2) Movement in level 3 financial instruments measured at fair value**

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the period:

	30 June 2017					Total assets
	Derivative financial assets	Financial assets designated at fair value through profit or loss	Available-for-sale securities			
			Debt securities	Equity securities		
At 1 January	84	472	14	3,911	4,481	
— in profit or loss	—	(11)	7	—	(4)	
— in other comprehensive income	—	—	(8)	212	204	
Purchase	—	3,065	—	—	3,065	
Addition	8	—	45	—	53	
Settlement	(86)	—	—	(603)	(689)	
At 30 June	6	3,526	58	3,520	7,110	
Total gains for the period included in profit or loss for assets and liabilities held at end of the reporting period	—	(11)	12	—	1	

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Fair value of financial instruments (continued)**(2) Movement in level 3 financial instruments measured at fair value (continued)**

	31 December 2016					Total assets
	Derivative financial assets	Financial assets designated at fair value through profit or loss	Available-for-sale securities			
			Debt securities	Equity securities		
At 1 January	110	350	56	3,715	4,231	
— in loss	(4)	—	(21)	—	(25)	
— in other comprehensive income	—	—	(21)	(499)	(520)	
Purchase	—	122	—	—	122	
Addition	93	—	—	695	788	
Settlement	(115)	—	—	—	(115)	
At 31 December	84	472	14	3,911	4,481	
Total gains for the period included in profit or loss for assets and liabilities held at end of the reporting period	—	—	1	—	1	

(3) Transfers among levels

During six months ended 30 June 2017, the transfers among level 1, level 2 and level 3 of the fair value hierarchy for financial assets and liabilities of the Group were immaterial.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Fair value of financial instruments (continued)

(4) Fair value of financial assets and liabilities not carried at fair value

- a Cash and balances with central bank, balances with banks and other financial institutions, placements with banks and other financial institutions, long-term receivables, deposits and placements from banks and other financial institutions, and financial assets held under resale agreements and sold under repurchase agreements**

Given that these financial assets and financial liabilities mainly mature within a year or adopt floating interest rates, their book values approximate their fair value.

- b Loans and advances to customers, and investment securities — loans and receivables**

Loans and advances to customers, and investment securities — loans and receivables are recorded net of allowance for impairment losses. Their estimated fair value represents the amount of estimated future cash flows expected to be received, discounted at current market rates.

- c Held-to-maturity securities and available-for-sale equity investments which measured in cost**

The fair value for held-to-maturity assets and available-for-sale equity investments which measured in cost is based on “bid” market prices or brokers’/dealers’ price quotations. If relevant market information is not available, the fair value is based on quote price of security products with similar characteristics such as credit risk, materiality and yield.

- d Deposits from customers**

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices are estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 Fair value of financial instruments (continued)**(4) Fair value of financial assets and liabilities not carried at fair value (continued)****e Debt securities issued**

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following table summarises the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments, loans and receivables, loans and advances to customers, debt securities issued and deposits from customers:

	30 June 2017					31 December 2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets										
Available-for-sale equity investments	151	151	–	–	151	151	151	–	–	151
Loans and receivables	1,019,404	1,014,768	–	1,014,768	–	1,148,729	1,148,072	–	1,148,072	–
Loans and advances to customers	2,636,361	3,065,460	–	3,065,460	–	2,397,192	2,713,617	–	2,713,617	–
Held-to-maturity investments	663,652	641,021	–	641,021	–	661,362	658,558	–	658,558	–
Total	4,319,568	4,721,400	–	4,721,249	151	4,207,434	4,520,398	–	4,520,247	151
Financial liabilities										
Deposits from customers	3,023,127	3,044,985	–	3,044,985	–	3,082,242	3,196,776	–	3,196,776	–
Debt securities issued	529,751	522,775	–	522,775	–	398,376	396,437	–	396,437	–
Total	3,552,878	3,567,760	–	3,567,760	–	3,480,618	3,593,213	–	3,593,213	–

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Related party transactions

(1) Related parties

Related parties of the Group refer to entities controlled, or jointly controlled by or under significant influence of the Group; entities that control, jointly control or have significant influence over the Group; or entities with which the Group is under control, or joint control of another party. Related parties can be individuals or enterprises. Related parties that have significant influence on the Group include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; major shareholders with the power to influence the Bank's operating or financial policies, and entities controlled or jointly controlled by these major shareholders.

The detailed information of the Bank's subsidiaries is set out in Note 24.

(2) Related party transactions

(i) Pricing policy

Transactions between the Group and related parties are conducted in the normal course of its business and under normal commercial terms. The pricing policies are no more favourable than those offered to independent third parties.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Related party transactions (continued)

(2) Related party transactions (continued)

(ii) Loans to related parties

Balances outstanding as at the end of the reporting period:

	Types of collateral	30 June 2017	31 December 2016
Sinopharm Group Co., Ltd. and its subsidiaries	Guaranteed	3,626	5,344
Legend Holdings Ltd.	Guaranteed	1,500	1,500
Orient Group Incorporation Co., Ltd. and its subsidiaries	Pledged	1,438	1,440
AUSPICIOUS SUCCESS LIMITED	Guaranteed	813	—
SHR FSST, LLC	Collateralised	677	—
Xiamen Oita Sports Culture Development Co., Ltd	Collateralised	650	—
Shanghai Fosun High Technology (Group) Co., Ltd.	Guaranteed	500	500
East Hope Group Co., Ltd.	Guaranteed	400	400
Minsheng Yanglao Co., Ltd	Guaranteed	346	347
Good First Group Co., Ltd.	Guaranteed	313	325
	Collateralised	258	408
BYBO DENTAL GROUP and its subsidiaries	Guaranteed	250	250
CUDECO LIMITED	Guaranteed	203	416
Hebei Sulong Photovoltaic Power Generation Co., Ltd	Collateralised	104	—
Sichuan Hope Senlan Energy and Chemical Co., Ltd	Guaranteed	100	80
Shanghai Songjiang Water Company	Guaranteed	67	54
Sichuan Hope Senlan Air Conditioning manufacturing Co., Ltd.	Guaranteed	50	—
Chongqing Yufu Highway Co., Ltd	Pledged	34	—
HopeSenlan Science & Technology Co., Ltd	Guaranteed	20	60
Chengdu Lvke Co., Ltd.	Collateralised	Note	40
Sichuan Hope West Construction Co., Ltd	Guaranteed	20	20
Gemdale Corporation	Guaranteed	20	20
Xiamen Rongyin Co., Ltd.	Pledged	11	14
Individuals	Collateralised	28	30
Total		11,428	11,248
Ratio to similar transactions (%)		0.43	0.47

Note: As at 30 June 2017, the entity was no longer related party of the Group.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Related party transactions (continued)**(2) Related party transactions (continued)****(ii) Loans to related parties (continued)***Amount of transactions:*

	Six months ended 30 June	
	2017	2016
Interest income from loans	161	144
Ratio to similar transactions (%)	0.14	0.15

As at 30 June 2017, none of the above loans are found to be impaired individually (31 December 2016: Nil).

(iii) Other transactions with related parties*Balances outstanding as at the end of the reporting period:*

	30 June 2017		31 December 2016	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Financial assets at fair value through the profit or loss	—	—	50	0.06
Investment securities:				
— available-for-sale securities	492	0.16	200	0.07
— loans and receivables	1,607	0.16	2,024	0.18
Long-term receivables	60	0.05	95	0.10
Other assets	491	0.40	242	0.22
Deposits from customers	33,645	1.11	50,783	1.65
Deposits and placements from banks and other financial institutions	9,314	0.79	513	0.04
Other liabilities	365	0.40	1,853	2.22

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Related party transactions (continued)**(2) Related party transactions (continued)****(iii) Other transactions with related parties (continued)***Amount of transactions for the reporting period:*

	2017		2016	
	Six months ended 30 June		Six months ended 30 June	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Interest income	40	0.04	8	0.01
Interest expense	503	0.70	1,180	2.33
Fee and commission income	189	0.69	741	2.49
Operating expenses	202	1.10	127	0.59

Other related-party transactions have no material impact on the Group's income statement.

Balances of items off the statement of financial position outstanding as at the end of the reporting period:

	30 June 2017		31 December 2016	
	Ratio to similar transactions		Ratio to similar transactions	
	Balance	(%)	Balance	(%)
Guarantees	4,090	2.69	5,238	2.57
Bank acceptances	5,077	0.97	4,788	0.78
Letters of credit	1,250	1.01	1,480	1.34

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Related party transactions (continued)**(2) Related party transactions (continued)****(iii) Other transactions with related parties (continued)***Balances of other items outstanding as at the end of the reporting period:*

	30 June 2017		31 December 2016	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Loans collateralised by related parties	10,870	0.41	13,106	0.55
Discounted bills under resale agreements, issued by related parties	255	1.24	17	0.04

None of the above related party transactions have a material impact on the Group's profit or loss for the six months ended 30 June 2017 and 30 June 2016, and the Group's financial position as at 30 June 2017 and 31 December 2016.

(iv) Transactions with the annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other significant transactions were conducted between the Group and the annuity scheme for the six months ended 30 June 2017 and for the six months ended 30 June 2016.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Related party transactions (continued)**(2) Related party transactions (continued)****(v) Transactions with key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the Bank's activities, directly or indirectly, including directors, supervisors and senior management.

The Bank enters into transactions with key management personnel under normal commercial terms. These include loans and deposits, which are carried out at rates similar to those offered to third parties. Outstanding loans to the key management amounted to RMB6 million as at 30 June 2017 (31 December 2016: RMB12 million), which have been included in the above loans granted to related parties.

Accrued salaries and other short-term benefits for the key management personnel before tax amounted to RMB33 million for the six months ended 30 June 2017 (for the six months ended 30 June 2016: RMB29 million). No post-employment benefits, termination benefits or other long-term benefits were provided to the key management personnel for the six months ended 30 June 2017 and for the six months ended 30 June 2016.

(vi) Transactions between the Bank and its subsidiaries

Balances outstanding as at the end of the reporting period:

	30 June 2017	31 December 2016
Balances with banks and other financial institutions	8	70
Placements with banks and other financial institutions	6,031	1,942
Loans and advances to customers	1,979	411
Other assets	377	439
Deposits from customers	512	89
Deposits and placements from banks and other financial institutions	6,294	6,584
Other liabilities	17	31

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Related party transactions (continued)**(2) Related party transactions (continued)****(vi) Transactions between the Bank and its subsidiaries (continued)***Amount of transactions for the reporting period:*

	Six months ended 30 June	
	2017	2016
Interest income	58	89
Interest expense	74	100
Fee and commission income	201	213
Operating expenses	93	100

For the period ended 30 June 2017, the transactions between subsidiaries of the Group are mainly interbank deposits. As at 30 June 2017, the balance of the above transactions was RMB445 million (31 December 2016: RMB534 million).

The balances and amount with the subsidiary and inter-subsidiaries have been offset in the consolidated financial statements.

46 Subsequent events

Up to the approval date of the financial statements, other than the dividends distribution plan set out in Note 36, the Group had no material subsequent events for disclosure.

47 Comparative figures

For financial statements disclosure purpose, the Group made reclassification adjustments to some comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

1 Liquidity coverage ratio

	As at 30 June 2017	Average for the period ended 30 June 2017	As at 31 December 2016	Average for the period ended 30 June 2016
Liquidity coverage ratio (%) (RMB and foreign currency)	84.13%	82.59%	88.42%	90.82%

The above liquidity coverage ratio is calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

Pursuant to the *Administrative Measures on Liquidity risk of Commercial Banks (Trial Implementation)* (2015 Revision), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 60%, 70%, 80%, and 90% by the end of 2014, 2015, 2016 and 2017, respectively.

2 Currency concentrations

	30 June 2017			
	USD	HKD	Others	Total
Spot assets	468,373	40,306	42,715	551,394
Spot liabilities	(432,759)	(26,288)	(42,847)	(501,894)
Forward purchases	675,436	19,711	66,096	761,243
Forward sales	(658,034)	(23,791)	(81,827)	(763,652)
Net long/(short) position*	53,016	9,938	(15,863)	47,091

	31 December 2016			
	USD	HKD	Others	Total
Spot assets	491,474	35,630	49,538	576,642
Spot liabilities	(253,651)	(23,220)	(49,858)	(326,729)
Forward purchases	216,120	23,302	145,393	384,815
Forward sales	(290,900)	(16,136)	(115,470)	(422,506)
Net long position*	163,043	19,576	29,603	212,222

* The net option position is calculated using the delta equivalent approach as required by the Hong Kong Monetary Authority.

The Group has no structural position in the reported periods.

Unaudited Supplementary Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Loans and advances to customers**(1) Impaired loans by geographical area**

	30 June 2017				
	Northern China	Eastern China	Southern China	Other Locations	Total
Impaired loans	20,577	11,051	3,758	10,224	45,610
Allowance for impairment losses					
— Individual assessment	7,050	3,258	853	2,185	13,346
— Collective assessment	6,113	2,837	1,168	3,125	13,243

	31 December 2016				
	Northern China	Eastern China	Southern China	Other Locations	Total
Impaired loans	19,448	9,396	3,736	8,855	41,435
Allowance for impairment losses					
— Individual assessment	6,562	2,356	726	1,498	11,142
— Collective assessment	6,085	2,989	1,139	2,802	13,015

(2) Loans overdue for more than 3 months by geographical area

	30 June 2017				
	Northern China	Eastern China	Southern China	Other Locations	Total
Overdue loans	30,059	14,987	5,603	15,827	66,476
Allowance for impairment losses					
— Individual assessment	1,499	1,466	136	451	3,552
— Collective assessment	7,047	3,155	1,342	3,812	15,356

	31 December 2016				
	Northern China	Eastern China	Southern China	Other Locations	Total
Overdue loans	28,958	13,063	5,860	14,840	62,721
Allowance for impairment losses					
— Individual assessment	6,366	2,177	697	1,304	10,544
— Collective assessment	8,069	3,832	1,632	4,077	17,610

Unaudited Supplementary Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 International claims

	30 June 2017				
	Asia pacific excluding mainland China	North America	Europe	Other Locations	Total
Banks and other financial institutions	37,625	5,222	7,137	3,143	53,127
Public sector entities	925	283	—	—	1,208
Others	138,500	30,672	11,695	3,779	184,646
Total	177,050	36,177	18,832	6,922	238,981

	31 December 2016				
	Asia pacific excluding mainland China	North America	Europe	Other Locations	Total
Banks and other financial institutions	50,704	18,775	10,745	7,011	87,235
Public sector entities	928	251	—	139	1,318
Others	121,986	16,019	2,811	15,394	156,210
Total	173,618	35,045	13,556	22,544	244,763





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