



改革转型 行稳致远



(a joint stock limited company incorporated in the People's Republic of China)
Stock Code : 01988 USD Preference Shares Stock Code : 04609

2018 INTERIM REPORT

Important Notice

The Board, the Board of Supervisors, 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 30 August 2018 at the eleventh meeting of the seventh session of the Board of the Company. Of the 16 Directors who were entitled to attend the meeting, eight Directors attended the meeting in person, eight Directors, being the Chairman Hong Qi, the Vice Chairman Zhang Hongwei, as well as the Directors Shi Yuzhu, Wu Di, Liu Jipeng, Li Hancheng, Xie Zhichun and Tian Suning, attended the meeting by teleconference. Of the eight Supervisors who were entitled to attend the meeting, eight Supervisors attended the meeting as non-voting delegates.

No interim profit will be distributed and no capital reserve will be used for capitalisation for the interim period of 2018.

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 rules of the International Financial Reporting Standards (“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.
“CBIRC”	China Banking and Insurance Regulatory Commission
“CBRC”	the former China Banking Regulatory Commission
“CIRC”	the former China Insurance Regulatory Commission
“CMBC International”	CMBC International Holdings Limited
“CSRC”	China Securities Regulatory Commission
“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
“NPL”	non-performing loan
“Phoenix Project” (鳳凰計劃)	a comprehensive customer-oriented project for transformation for growth model and reform of corporate governance of the Company in response to the liberalisation of interest rate and other changes in the external environment

Definitions

“Reporting Period”	the period from 1 January 2018 to 30 June 2018
“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

Strategic Positioning, Reform and Transformation of the Company

I. Mission

In view of the macro economic situation with significant changes in economic development and economic structure and in response to multiple challenges arising from the liberalisation of interest rates, emergence of fintech, acceleration of financial disintermediation and comprehensively strengthening regulation, the Company optimised its management structure by further improving its corporate governance. The Company put efforts in accelerating transformation and renovation and providing innovative services modes and channels. The Company also comprehensively enhanced its capability and strength to cope with external challenges and better serve the real economy. At the same time, the Company strengthened business adjustment and transformation and further focused on its development strategies, with an aim to become a bank for the non-state-owned enterprises (NSOEs), a fintech-based bank and a bank of comprehensive services, and to take its sound and sustainable development to a new level.

II. Strategic Positioning and Targets

(I) Strategic positioning

The Company aims to become a bank for the NSOEs, a fintech-based bank and a bank of comprehensive services.

(II) Strategic targets

As a customer-oriented bank, the Company targets to improve its development quality and efficiency and transform itself into a digitalised, light-weighted and integrated benchmark bank, so as to further raise its corporate value.

III. Reform and Transformation

In view of the significant changes in the internal and external environment, the banking industry in China is facing imminent and unavoidable needs for major reform. Firm reform and transformation to completely switch the development model have become the only way out.

Based on the preliminary and core achievements of the Phoenix Project and the Three-Year Development Plan, the Board of the Company considered and approved the Overall Implementation Scheme for Reform and Transformation and the Three-year Development Plan of China Minsheng Bank (《中國民生銀行改革轉型暨三年發展規劃整體實施方案》) (the “Implementation Plans”) on 27 April 2018, targeting to develop the Company into a benchmark bank with distinctive features, increasing values and continuous innovation and to maximise its market value through reform and transformation in three years to improve the development quality and efficiency under the customer-centred principle as well as the three major strategic orientations, namely to become a bank for the NSOEs, a fintech-based bank and a bank of comprehensive services. During the Reporting Period, under the leadership of the Board and the operation management, the Implementation Plans were carried out orderly and preliminary results of transformation were gradually achieved.

Strategic Positioning, Reform and Transformation of the Company

Firstly, the Company has developed distinctive services for NSOEs. Sharing a common heritage with NSOEs, serving the NSOEs is the inherent mission of the Company. Leveraging on the advantage as a first mover, positioning itself as a bank for the NSOEs has been a necessary strategy of the Company. Through reform and transformation, the Company provides customised services to different types of NSOEs based on their needs with high efficiency and quality. For corporate banking, the Company has identified a strategic white list consisting of NSOE customers with core competitiveness and sustainability. By assigning professional service teams with prioritised resources allocation and customised and comprehensive solutions, the Company has established long-term and intensive cooperation with its customers to realise mutual growth. In addition, the Company provides advanced supply chain financing services for niche NSOEs, offers “scientific innovation loan (科創貸)” to customers with growth potential and further consolidates the customer base of NSOEs through the “Small and Medium Minsheng Project (中小民生工程)”. For retail banking, focusing on the market of NSOEs, the Company has developed three characteristic and core customer bases, being the small business customers, personal customers, and private banking customers. Data-driven marketing management and control system is adopted to improve the services for target customers, which has further increased the customer values. For the financial markets business, the Company focuses to serve the NSOE customers under the corporate and retail banking segments. Based on customers’ demands, the Company has developed new agency products and promoted the reform of asset management in order to expand the coverage capability of its light-capital products among target customers.

Secondly, the Company has fostered its fintech development. Scientific technology is a critical engine of the Company’s future development. Dually driven by “data + technology”, the Company carries out its reform and transformation and promotes the construction of digitalised and smart bank. The Company has been persisting in building its digitisation capability, developing a large-scale big data platform to facilitate its targeted marketing, innovative risk control and refined management approaches. At the same time, the Company has made extra investments in new technologies, especially the development of innovative technologies, for major application during the course of reform and business transformation. The Company owns various proprietary new technologies, such as distributed core financial cloud platform (分佈式核心金融雲平台), big data platform and artificial intelligence service system. The Company has also joined the international blockchain alliances to formulate blockchain technology standards applicable to the banking industry together with the regulatory authorities. The application of scientific technology not only constantly fuels the Bank’s business transformation but also promotes the refinement of management transformation of the whole Bank.

Thirdly, the Company has enhanced its comprehensive services capability. Adhering to the customer-centred approach, the Company has established the business synergy system of “One Minsheng (一個民生)” and further improved the scope and quality of customer services in order to become a bank of comprehensive services. At the bank level, the Company continues to promote collaboration among different business lines through the cross-selling and business synergy systems. Customer comprehensive acquisition and management abilities across different business segments have been strengthened, and customers are provided with integrated and comprehensive financial services. At the group level, the cooperation between the Head Office and subsidiaries has been reinforced. By expediting the layout of the business diversification and developing integrated operation, it is targeted that the net profits of all subsidiaries will be growing at a compound rate not lower than that of the Head Office in the coming three years. The competitive edge of the Group in terms of comprehensive financial services will be cultivated.

Bank Profile

- Registered Chinese Name of the Company: 中國民生銀行股份有限公司
Registered English Name of the Company: CHINA MINSHENG BANKING CORP., LTD.
(Abbreviation: “CMBC”)
- Legal Representative of the Company: Hong Qi
- Authorised Representatives of the Company: Xie Zhichun
Wong Wai Yee, Ella
- Board Secretary:
Company Secretary: Bai Dan
Representative of Securities Affairs: Wong Wai Yee, Ella
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

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

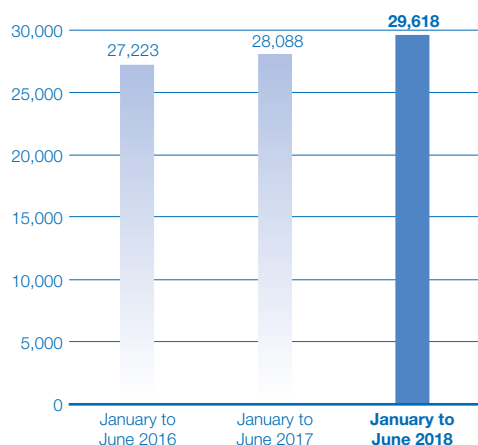
Summary of Accounting Data and Financial Indicators

I. Major Accounting Data and Financial Indicators

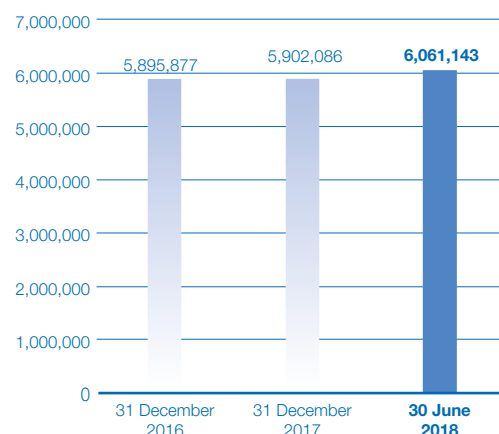
	January to June 2018	January to June 2017	Changes of the Reporting Period over the corresponding period of the previous year	January to June 2016
			Increase/ decrease (%)	
Operating results (RMB million)				
Net interest income	33,874	41,115	-17.61	47,438
Net interest income (after adjustment)	46,555	41,115	13.23	47,438
Net non-interest income	40,413	28,789	40.38	29,951
Operating income	74,287	69,904	6.27	77,389
Operating expenses	18,870	18,314	3.04	21,446
Impairment losses on loans and advances	19,177	16,330	17.43	20,816
Profit before income tax	35,886	34,451	4.17	35,181
Net profit attributable to equity shareholders of the Company	29,618	28,088	5.45	27,223
Net cash flow from operating activities	-162,272	-368,013	Negative for both periods	728,563
Data per share (RMB)				
Basic earnings per share	0.68	0.64	6.25	0.62
Diluted earnings per share	0.68	0.64	6.25	0.62
Net cash flow per share from operating activities	-3.71	-8.41	Negative for both periods	16.64
Profitability indicators (%)			Changes in percentage point	
Return on average assets (annualised)	1.00	0.98	0.02	1.13
Return on weighted average equity (annualised)	15.81	16.23	-0.42	17.49
Cost-to-income ratio	24.35	25.12	-0.77	23.20
Net fee and commission income to operating income ratio	32.75	35.02	-2.27	36.26
Net interest spread	1.54	1.27	0.27	1.88
Net interest margin	1.64	1.40	0.24	2.01

Summary of Accounting Data and Financial Indicators

Net Profit Attributable to Equity Shareholders of the Company (RMB million)



Total Assets (RMB million)



	30 June 2018	31 December 2017	Changes from the end of the previous year to the end of the Reporting Period	31 December 2016
Scale indicators (RMB million)			Increase/ decrease (%)	
Total assets	6,061,143	5,902,086	2.69	5,895,877
Total loans and advances to customers	3,052,658	2,804,307	8.86	2,461,586
Total liabilities	5,653,299	5,512,274	2.56	5,543,850
Deposits from customers	3,157,881	2,966,311	6.46	3,082,242
Share capital	43,782	36,485	20.00	36,485
Total equity attributable to equity shareholders of the Company	397,042	378,970	4.77	342,590
Total equity attributable to ordinary shareholders of the Company	387,150	369,078	4.90	332,698
Net assets per share attributable to ordinary shareholders of the Company (RMB)	8.84	8.43	4.86	7.60
			Changes in percentage point	
Asset quality indicators (%)				
NPL ratio	1.72	1.71	0.01	1.68
Allowance to NPLs	162.74	155.61	7.13	155.41
Allowance to total loans	2.81	2.66	0.15	2.62
Capital adequacy ratio indicators (%)				
Core tier-one capital adequacy ratio	8.64	8.63	0.01	8.95
Tier-one capital adequacy ratio	8.87	8.88	-0.01	9.22
Capital adequacy ratio	11.86	11.85	0.01	11.73
Total equity to total assets ratio	6.73	6.60	0.13	5.97

Summary of Accounting Data and Financial Indicators

Notes:

1. During the Reporting Period, earnings per share, net cash flow per share from operating activities and net assets per share attributable to shareholders of the Company were calculated based on the number of shares upon the completion of the capitalisation of the capital reserve in 2017, and comparative figures had been restated.
2. The new accounting standards in relation to financial instruments have been adopted starting from 1 January 2018, pursuant to which, gains from the holding of financial assets at fair value through profit or loss will no longer be recorded as interest income. During the Reporting Period, the net interest income (after adjustment) amounted to RMB46,555 million, representing an increase of 13.23% as compared with the corresponding period of the previous year.
3. Return on average assets = net profit/average balance of total assets at the beginning and the end of the period.
4. Return on weighted average equity: calculated according to regulations including the Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity 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, etc.
5. Cost-to-income ratio = (operating and other operating expenses – tax and surcharges)/operating income.
6. Net interest spread = return on average balance of interest-earning assets – cost ratio of average balance of interest-bearing liabilities.
7. Net interest margin = net interest income/average balance of interest-earning assets.
8. NPL ratio = total NPLs/total loans and advances to customers.
9. Allowance to NPLs = allowance for impairment losses on loans/total NPLs.
10. Allowance to total loans = allowance for impairment losses on loans/total loans and advances to customers.

II. Supplementary Accounting Data and Financial Indicators

(Unit: %)

Major Indicators	Benchmark	30 June	31 December	31 December	
		2018	2017	2016	
Liquidity ratio	Consolidated in RMB	≥25	44.42	39.80	39.64

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

Discussion and Analysis on Business Operation

I. Review of Economic and Financial Conditions and Government Policies

In the first half of 2018, the global economy picked up its recovery momentum steadily. The global financial and economic landscape was more complex with various challenges and uncertainties. On the one hand, the global inflation began to pick up, resulting in tightened monetary policies of major developed countries. Interest rate hike by the Federal Reserve was highly expected. The Eurozone also intended to phase out quantitative easing by the end of the year and the emerging markets were facing the pressure of capital outflow. On the other hand, trade protectionism was on the rise and trade conflict among the economies was escalated. The international diversification of industries and global value chain would be significantly impacted, resulting in a slowdown of global economic recovery. The fluctuations and uncertainties of global economy had impacts on the economic and financial operation of China in multiple ways, including changes in external demand, capital flow, exchange rate fluctuation and price pass-through. The uncertainties and challenges were increasing accordingly.

In the first half of 2018, the economy of China maintained its steady growth in spite of the changing environment. The economic structure adjustment was further promoted through the replacement of old driving trains with new ones for higher quality and efficiency. The economic development had a good start towards high quality model. However, there were also some difficulties in economic growth, including the increasing uncertainties of external economic environment, weakened internal demand (particularly on investment), relatively high leverage ratio of real economy and tightened financial regulation for risk prevention and control. The government of China proactively adopted measures to tackle the difficulties, including the continuous deepening reform, expanding opening-up policies and promoting supply-side structural reform; maintaining stable and neutral monetary policies to ensure reasonably sufficient liquidity; adopting aggressive financial policies in order to increase the internal demand and create favourable business operation environment; strengthening the management of financial regulatory and government debts. The provision of credit was strictly controlled to prevent unnecessary increase in gearing ratio. The guarantee of repayment of some debts was withdrawn to tolerate a certain level of risks while the prevention of systematic risks was further enhanced.

Following the increasingly stringent regulation and control, the society's capability of generating credits was weakened. The development of banking industry was also faced with various challenges, such as slow growth in deposits, increasing difficulties in growing stable liabilities with low cost, increasing demand for conversion of non-balance sheet items into balance sheet items and non-standard items into standard items, more complicated liquidity management and intensifying pressure on capital replenishment. It became critical for the banking industry to carry out structural reform and enhance 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, effectively support the development of real economy and prevent various types of financial risks, the Company has adopted the following measures and achieved good results:

1. The Company highly valued strategic guidelines and steadily continued the implementation of its reform and transformation. The Board approved the Overall Implementation Scheme for Reform and Transformation and the Three-year Development Plan of China Minsheng Bank (《中國民生銀行改革轉型暨三年發展規劃整體實施方案》). While transforming and utilising the results of the Phoenix Project, the Company had determined the development strategies, business objectives and operating targets for the next three years. The Company stuck to its strategic positioning of becoming “a bank for the NSOEs, a fintech-based bank and a bank of comprehensive services” to establish a renowned brand image in the banking industry in China.
2. Adhering to its mission of “From the People, For the People (為民而生·與民共生)”, the Company has developed its distinctive competitiveness. In respect of corporate banking business, the Company focused on NSOEs and positioned itself as a scenarised transaction bank, a customised investment bank, a convenient online bank and a comprehensive wealth management bank. The Company expanded the customer base of NSOEs and further enhanced its capability to serve NSOEs, striving to become a host bank for quality NSOEs. In respect of retail banking business, based on the “ecosystem of NSOEs”, the Company has developed its three featured core customer bases including small and micro enterprises, supply chain of quality NSOEs and entrepreneurs. The Company developed its business system services according to the features of NSOEs, providing efficient and quality services with human touch and insight for NSOEs and entrepreneurs.
3. The Company has become more open-minded towards opportunities and challenges arising from fintech. Based on the Internet platform, the Company applied cloud-based big data and aimed to develop into an intelligent bank to strengthen the development of businesses such as direct banking, online loan to small and micro enterprises, and credit card online services. Supported by technology innovation, the fintech of the Company was enhanced.
4. The Company developed a “customer-oriented” integrated service system to develop into a bank of comprehensive services and achieve organic growth of value. A cross-selling mechanism for cooperation between corporate banking and retail banking was established, creating an integrated cross-department business layout involving various products. The Company accelerated the group-based development to facilitate business cooperation among subsidiaries, the Head Office and overseas branches.

Discussion and Analysis on Business Operation

5. The Company accelerated the implementation of the reform of the SBU system. The SBU system was further improved through the establishment of ten SBUs, namely the Real Estate Finance SBU, Group Finance SBU, Credit Card Centre, Investment Banking Direct Sales SBU, Small Business Finance SBU, Private Banking SBU, Supply Chain Finance SBU, Financial Markets Department, Asset Management Department and Direct Banking SBU. The Company adopted differentiated management based on classification to clarify the business scope and performance accounting and appraisal mechanism of each SBU, and match reasonable incentive and restraint mechanism with each SBU.
6. The Company optimised the allocation of assets, liabilities and financial resources. Efficient capital strategies, scientific pricing strategies and prudent liquidity strategies were formulated. The Company comprehensively enhanced the utilisation of its financial resources, refined financial accounting, professional financial management and financial platform support.
7. The Company enhanced its comprehensive risk management. A risk management system was developed to accommodate, lead, promote and protect business development. With optimised duties of the Internal Control and Compliance Department, Legal Affairs Department and Audit Department, the internal control and compliance system of the Company was strengthened. The Company refined its risk management measures to support strategic business development and improved the disposal of non-performing asset.

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 internal and external operating environment. According to the three major strategic positionings of becoming “a bank for the NSOEs, a fintech-based bank and a bank of comprehensive services”, preliminary results of implementation of reform and transformation policies have been achieved. Risk control and operation compliance have been strengthened, quality of assets has maintained generally stable and profitability has risen steadily. The operation of all business lines has achieved healthy and stable development.

(I) Steady growth in profits and continuous improvement of operating efficiency

Net profit further increased with steady returns to shareholders. During the Reporting Period, the Group recorded net profit attributable to equity shareholders of the Company of RMB29,618 million, representing an increase of RMB1,530 million, or 5.45%, as compared with the corresponding period of the previous year. Annualised return on weighted average equity and annualised return on average assets were 15.81% and 1.00%, respectively, representing a decrease of 0.42 percentage points and an increase of 0.02 percentage points as compared with the corresponding period of the previous year, respectively. Basic earnings per share was RMB0.68, increased by RMB0.04 as compared with the corresponding period of the previous year. Net assets per share attributable to ordinary shareholders of the Company was RMB8.84, increased by RMB0.41 as compared with the end of the previous year.

Operating income increased steadily and operating efficiency was optimised. During the Reporting Period, operating income of the Group amounted to RMB74,287 million, representing an increase of RMB4,383 million, or 6.27%, as compared with the corresponding period of the previous year. The Company continued to promote the implementation of cost efficiency project under the Phoenix Project to further refine cost management. Significant progress has been achieved in cost reduction and operation efficiency. Cost-to-income ratio was 24.35%, representing a decrease of 0.77 percentage points as compared with the corresponding period of the previous year.

Discussion and Analysis on Business Operation

(II) Coordinated growth of asset and liability and further optimisation of business structure

During the Reporting Period, total assets of the Group increased moderately. As at the end of the Reporting Period, the total assets of the Group amounted to RMB6,061,143 million, representing an increase of RMB159,057 million, or 2.69%, as compared with the end of the previous year. The outstanding balance of loans accounted for RMB3,052,658 million, representing an increase of RMB248,351 million, or 8.86%, as compared with the end of the previous year. Total liabilities amounted to RMB5,653,299 million, representing an increase of RMB141,025 million, or 2.56%, as compared with the end of the previous year. The total deposits amounted to RMB3,157,881 million, representing an increase of RMB191,570 million, or 6.46%, as compared with the end of the previous year.

While maintaining the coordinated growth of assets and liability, the Group also proactively responded to changes in regulatory policies and market environment and took initiative to adjust business strategies to continue its optimisation of business structure and achieved significant results.

For assets business, as at the end of the Reporting Period, the percentage of outstanding balance of total loans (including discounted bills) of the Group in the total assets was 50.36%, increased by 2.85 percentage points as compared with the end of the previous year. Loans to small and micro enterprises was RMB406,604 million, representing an increase of RMB33,342 million, or 8.93%, as compared with the end of the previous year. Percentage of balance of the Company's secured micro lending was 81.62%, representing an increase of 5.98 percentage points as compared with the end of the previous year.

For liability business, as at the end of the Reporting Period, the percentage of deposits balance in the total liabilities of the Group was 55.86%, representing an increase of 2.05 percentage points as compared with the end of the previous year. The proportion of personal deposits was 17.81%, representing an increase of 1.22 percentage points as compared with the end of the previous year. The proportion of interbank liabilities (including interbank negotiable certificates of deposit (IBNCD)) was 30.46%, representing a decrease of 1.44 percentage points as compared with the end of the previous year.

Discussion and Analysis on Business Operation

(III) Full implementation of reform and good advancement of major businesses

During the Reporting Period, the Company has formulated the Overall Implementation Scheme for Reform and Transformation and the Three-Year Development Plan (《改革轉型暨三年發展規劃整體實施方案》) which further clarified the strategic positioning and development approach to adhere to the principle of customer orientation, and to activate reform and transformation comprehensively and to focus on improving development quality and efficiency. The development momentum of businesses including corporate finance, retail finance, financial markets business, Internet finance and comprehensive operation were sound.

1. Strengthened corporate finance business. The Company has steadily implemented strategies to support NSOEs and customer base has expanded gradually. The Company has been striving to become “a scenarised transaction bank, customised investment bank and convenient online bank with personalised entrepreneur services and integrated wealth management” and form an integrated finance services mechanism to promote the transformation of business model of the Company from scale expansion to efficiency improvement. As at the end of the Reporting Period, the balance of corporate deposits of the Company amounted to RMB2,563,658 million, representing an increase of RMB128,911 million, or 5.29%, as compared with the end of the previous year. The number of domestic corporate customers with deposits of the Company increased by 79.8 thousand, or 7.88%, to 1,092.6 thousand as compared with the end of the previous year. The outstanding balance of corporate loans amounted to RMB1,877,516 million, representing an increase of RMB177,820 million, or 10.46%, as compared with the end of the previous year.
2. Expanded retail finance business. The Company accelerated the promotion of wealth management of personal finance and the progress of integrated development was significant. The Company focused on the development of three groups of featured retail customers, namely “NSOEs customers, small and micro customers, private bank entrepreneur customers” and to advance the development of online and scenarised financial services to create distinctive competitiveness. As at the end of the Reporting Period, the number of retail customers with deposits was 36,356.2 thousand, representing an increase of 1,752.8 thousand as compared with the end of the previous year. Financial assets of individual customers under management amounted to RMB1,578,087 million, representing an increase of RMB141,727 million as compared with the end of the previous year. Retail deposits (including deposits of small and micro enterprises) amounted to RMB631,418 million, representing an increase of RMB80,258 million as compared with the end of the previous year. Retail loans amounted to RMB1,159,172 million, representing an increase of RMB70,254 million as compared with the

Discussion and Analysis on Business Operation

end of the previous year. Operating income of retail business amounted to RMB26,384 million, accounting for 36.56% of the total operating income. Private banking customers with daily average financial asset of not less than RMB8 million on monthly basis amounted to 18,350, representing an increase of 11.50% as compared with the end of the previous year. Balance of total financial assets of such private banking customers managed by the Company amounted to RMB332,287 million, representing an increase of RMB25,408 million as compared with the end of the previous year.

3. Optimised financial markets business. The Company enhanced its interbank customers business and optimised interbank liability structure. 315 IBNCDs amounting to RMB596,270 million were issued during the Reporting Period, representing an increase of 74.18% as compared with the corresponding period of the previous year. The Company proactively adapted to new regulations of assets management and advanced the transformation of product and business model orderly. As at the end of the Reporting Period, the existing scale of wealth management products amounted to RMB1,385,081 million. The Company facilitated the stable development of custody business by promoting comprehensive financial custody services. As at the end of the Reporting Period, assets under custody amounted to RMB8,223,737 million. As the Company studied the market trend precisely and grasped profit-taking opportunities in trading business, the trading volume of precious metals and foreign exchange continued to increase.
4. Promoting Internet finance business. The Company has applied emerging fintech to explore new development model of Internet financing and launched the first 2.0 new operating model “4 clouds+1 paradigm (4朵雲+1範式)” in the banking industry. The Company also upgraded its Internet finance platform to enhance the competitiveness of its products and maintained its leading position in terms of market share. As at the end of the Reporting Period, the number of direct banking customers reached 15,114.7 thousand with financial assets of RMB147,976 million under the Company’s management, representing an increase of 4,200.2 thousand and RMB43,230 million as compared with the end of the previous year, respectively. The number of personal e-banking customers reached 42,837.5 thousand, representing an increase of 4,425.6 thousand as compared with the end of the previous year. The number of transactions during the Reporting Period was 1,254 million with transaction amount of RMB8.60 trillion. The Company ranked top in the banking industry in terms of transaction activities of customers.

Discussion and Analysis on Business Operation

5. Refining integrated operation. The Bank has facilitated the establishment of overseas branches and capitalised on offshore business platform effectively to enhance cross-selling and business synergies. The Company also continuously enhanced cross-border financial services to strengthen its international competitiveness and influence. During the Reporting Period, the net profit of the Hong Kong Branch of the Company amounted to RMB677 million, representing an increase of 26.54% as compared with the corresponding period of the previous year. The net profit of CMBC International amounted to RMB135 million, representing an increase of 75.32% as compared with the corresponding period of the previous year.

(IV) Effective risk prevention and control and stable asset quality

During the Reporting Period, the Group established an internal compliance organisation system with various hierarchies and accelerated the refinement and implementation of risk control mechanism. Collection and disposal of non-performing assets were also enhanced. Asset quality remained generally stable and risk management has been further enhanced.

As at the end of the Reporting Period, the balance of NPLs of the Group amounted to RMB52,656 million, increased by RMB4,767 million, or 9.95%, as compared with the end of the previous year. The NPL ratio was 1.72%, representing an increase of 0.01 percentage points as compared with the end of the previous year. The allowance to NPLs was 162.74%, representing an increase of 7.13 percentage points as compared with the end of the previous year. The allowance to total loans was 2.81%, representing an increase of 0.15 percentage points as compared with the end of the previous year.

Discussion and Analysis on Business Operation

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

During the Reporting Period, the Group realised net profit attributable to equity shareholders of the Company of RMB29,618 million, maintaining a steady growth with an increase of RMB1,530 million, or 5.45%, as compared with the corresponding period of the previous year.

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

(Unit: RMB million)

Item	January to June 2018	January to June 2017	Change (%)
Operating income	74,287	69,904	6.27
of which: Net interest income	33,874	41,115	-17.61
Net non-interest income	40,413	28,789	40.38
Operating expenses	18,870	18,314	3.04
Impairment losses on assets	19,531	17,139	13.96
Profit before income tax	35,886	34,451	4.17
Less: Income tax expenses	6,033	5,837	3.36
Net profit	29,853	28,614	4.33
of which: Net profit attributable to equity shareholders of the Company	29,618	28,088	5.45
Profit or loss attributable to non-controlling interests	235	526	-55.32

Discussion and Analysis on Business Operation

The amounts, percentages and changes of major items of the Group's operating income are as follows:

(Unit: RMB million)

Item	January to June 2018		January to June 2017		Change (%)
	Amount	% of total	Amount	% of total	
Net interest income	33,874	45.60	41,115	58.82	-17.61
Interest income	114,126	153.64	113,133	161.84	0.88
Of which: Interest income from loans and advances to customers	70,849	95.37	60,619	86.71	16.88
Interest income from investment	29,565	39.80	39,234	56.13	-24.64
Interest income from placements with banks and other financial institutions	4,339	5.84	3,273	4.68	32.57
Interest income from long-term receivables	3,429	4.62	2,984	4.27	14.91
Interest income from balances with central bank	2,931	3.95	3,515	5.03	-16.61
Interest income from financial assets held under resale agreements	2,295	3.09	1,446	2.07	58.71
Interest income from balances with banks and other financial institutions	718	0.97	2,062	2.95	-65.18
Interest expenses	-80,252	-108.04	-72,018	-103.02	11.43
Net non-interest income	40,413	54.40	28,789	41.18	40.38
Net fee and commission income	24,327	32.75	24,477	35.02	-0.61
Other net non-interest income	16,086	21.65	4,312	6.16	273.05
Total	74,287	100.00	69,904	100.00	6.27

(I) Net interest income and net interest margin

During the Reporting Period, net interest income of the Group was RMB33,874 million, representing a decrease of RMB7,241 million, or 17.61%, as compared with the corresponding period of the previous year. The decrease was mainly because after the adoption of new accounting standards for financial instruments, gains from the holding of financial assets at fair value through profit or loss will no longer be recorded as interest income. During the Reporting Period, the net interest income (after adjustment) amounted to RMB46,555 million, representing an increase of 13.23% as compared with the corresponding period of the previous year. In accordance with the analysis of net interest income (after adjustment), the growth of business scale contributed to an increase of RMB323 million in net interest income, and the changes in interest rate contributed to an increase of RMB5,117 million in the net interest income.

Discussion and Analysis on Business Operation

During the Reporting Period, in accordance with the calculation of net interest income (after adjustment), net interest margin of the Group was 1.64%, representing an increase of 0.24 percentage points as compared with the corresponding period of the previous year, which was due to the increase of interest spread level.

The analysis of the net interest income (after adjustment) of the Group is listed below:

(Unit: RMB million)

Item	January to June 2018			January to June 2017		
	Average balance	Interest Income (after adjustment)	Average return (%)	Average balance	Interest Income	Average return (%)
Interest-earning assets						
Total loans and advances to customers	2,793,003	70,849	5.07	2,614,751	60,619	4.64
Of which: Corporate loans and advances	1,797,271	43,916	4.89	1,661,261	36,421	4.38
Personal loans and advances	995,732	26,933	5.41	953,490	24,198	5.08
Investment in trading and banking books	2,014,473	42,246	4.19	2,228,855	39,234	3.52
Placements with banks and other financial institutions	198,433	4,339	4.37	185,821	3,273	3.52
Long-term receivables	119,304	3,429	5.75	102,474	2,984	5.82
Balances with central bank	375,200	2,931	1.56	453,987	3,515	1.55
Financial assets held under resale agreements	117,868	2,295	3.89	78,669	1,446	3.68
Balances with banks and other financial institutions	67,155	718	2.14	212,673	2,062	1.94
Total	5,685,436	126,807	4.46	5,877,230	113,133	3.85

Discussion and Analysis on Business Operation

Item	January to June 2018			January to June 2017		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Interest-bearing liabilities						
Deposits from customers	2,987,798	29,343	1.96	3,037,630	26,206	1.73
Of which: Corporate deposits	2,475,985	24,795	2.00	2,492,229	21,772	1.75
Demand	1,078,929	5,220	0.97	1,122,078	5,054	0.90
Time	1,397,056	19,575	2.80	1,370,151	16,718	2.44
Personal deposits	511,813	4,548	1.78	545,401	4,434	1.63
Demand	185,298	344	0.37	171,995	403	0.47
Time	326,515	4,204	2.58	373,406	4,031	2.16
Balances from banks and other financial institutions	1,226,907	25,769	4.20	1,291,538	25,013	3.87
Debt securities issued	531,631	12,168	4.58	448,542	8,575	3.82
Borrowings from central bank and other financial institutions and others	470,062	8,925	3.80	438,377	7,339	3.35
Placements from banks and other financial institutions	154,451	2,062	2.67	209,894	2,183	2.08
Financial assets sold under repurchase agreements	126,648	1,985	3.13	149,411	2,702	3.62
Total	5,497,497	80,252	2.92	5,575,392	72,018	2.58
Net interest income		46,555			41,115	
Net interest spread			1.54			1.27
Net interest margin			1.64			1.40

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 impact of changes in scale of the Group and changes in interest rate on interest income and interest expenses were as follow:

(Unit: RMB million)

Item	Changes in scale from January to June 2017 to January to June 2018	Changes in interest rate from January to June 2017 to January to June 2018	Net increase/ decrease
Changes in interest income			
(after adjustment):			
Total loans and advances to customers	4,132	6,098	10,230
Investment in trading and banking books	-3,774	6,786	3,012
Placements with banks and other financial institutions	222	844	1,066
Long-term receivables	490	-45	445
Balances with central bank	-610	26	-584
Financial assets held under resale agreements	721	128	849
Balances with banks and other financial institutions	-1,411	67	-1,344
Subtotal	-230	13,904	13,674
Changes in interest expenses:			
Deposits from customers	-430	3,567	3,137
Deposits from banks and other financial institutions	-1,252	2,008	756
Debt securities issued	1,588	2,005	3,593
Borrowings from central bank and other financial institutions and others	530	1,056	1,586
Placements from banks and other financial institutions	-577	456	-121
Financial assets sold under repurchase agreements	-412	-305	-717
Subtotal	-553	8,787	8,234
Changes in net interest income			
(after adjustment)			
	323	5,117	5,440

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 RMB114,126 million, representing an increase of RMB993 million, or 0.88%, as compared with the corresponding period of the previous year. Interest income after the adjustment of gains from the holding of financial assets at fair value through profit or loss was RMB126,807 million, representing an increase of RMB13,674 million, or 12.09%, as compared with the corresponding period of the previous year, which was mainly due to the increases of interest income from loans and advances to customers and interest income from investment of the Group.

(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 RMB70,849 million, representing an increase of RMB10,230 million, or 16.88%, as compared with the corresponding period of the previous year. In particular, interest income from corporate loans and advances amounted to RMB43,916 million, representing an increase of RMB7,495 million, or 20.58%, as compared with the corresponding period of the previous year. Interest income from personal loans and advances amounted to RMB26,933 million, representing an increase of RMB2,735 million, or 11.30%, as compared with the corresponding period of the previous year.

(2) Interest income from investment

During the Reporting Period, interest income from investment of the Group was RMB29,565 million, representing a decrease of RMB9,669 million, or 24.64%, as compared with the corresponding period of the previous year. Interest income from investment after the adjustment of gains from the holding of financial assets at fair value through profit or loss was RMB42,246 million, representing an increase of 7.68%, as compared with the corresponding period of the previous year.

(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 RMB7,352 million, representing an increase of RMB571 million, or 8.42%, as compared with the corresponding period of the previous year. The increase was mainly due to the increase in the business scale and interest rate of the placements with banks and financial assets held under resale agreements.

Discussion and Analysis on Business Operation

(4) Interest income from long-term receivables

During the Reporting Period, interest income from long-term receivables of the Group amounted to RMB3,429 million, representing an increase of RMB445 million, or 14.91%, as compared with the corresponding period of the previous year.

(5) Interest income from balances with central bank

During the Reporting Period, interest income from balances with central bank of the Group was RMB2,931 million, representing a decrease of RMB584 million, or 16.61%, as compared with the corresponding period of the previous year.

2. Interest expenses

During the Reporting Period, interest expenses of the Group was RMB80,252 million, representing an increase of RMB8,234 million, or 11.43%, as compared with the corresponding period of the previous year. The increase was mainly due to the higher cost ratio of interest-bearing liabilities.

(1) Interest expenses on deposits from customers

During the Reporting Period, interest expenses on deposits from customers of the Group amounted to RMB29,343 million, representing an increase of RMB3,137 million, or 11.97%, 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 on deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements of the Group amounted to RMB29,816 million, representing a decrease of RMB82 million, or 0.27%, as compared with the corresponding period of the previous year.

(3) Interest expenses on debt securities issued

During the Reporting Period, interest expenses on debt securities issued of the Group amounted to RMB12,168 million, representing an increase of RMB3,593 million, or 41.90%, as compared with the corresponding period of the previous year. The increase was mainly due to the growth in the issuance scale and interest rate of IBNCD.

Discussion and Analysis on Business Operation

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

During the Reporting Period, interest expenses on borrowings from central bank and other financial institutions and other interest expenses of the Group amounted to RMB8,925 million, representing an increase of RMB1,586 million, or 21.61%, as compared with the corresponding period of the previous year. The increase was mainly due to the growth in the scale and interest rate of borrowings from central bank and other financial institutions.

(II) Net non-interest income

During the Reporting Period, the net non-interest income of the Group amounted to RMB40,413 million, representing an increase of RMB11,624 million, or 40.38%, as compared with the corresponding period of the previous year.

(Unit: RMB million)

Item	January to June 2018	January to June 2017	Change (%)
Net fee and commission income	24,327	24,477	-0.61
Other net non-interest income	16,086	4,312	273.05
Total	40,413	28,789	40.38

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 RMB24,327 million, representing a decrease of RMB150 million, or 0.61%, as compared with the corresponding period of the previous year, which was mainly due to the decrease in fee and commission income of agency services, trust and other fiduciary services.

(Unit: RMB million)

Item	January to June 2018	January to June 2017	Change (%)
Bank card services	12,869	10,121	27.15
Agency services	5,005	6,330	-20.93
Trust and other fiduciary services	4,166	7,097	-41.30
Settlement services	1,755	1,603	9.48
Credit commitments	1,526	1,607	-5.04
Others	870	617	41.00
Fee and commission income	26,191	27,375	-4.33
Less: Fee and commission expenses	1,864	2,898	-35.68
Net fee and commission income	24,327	24,477	-0.61

2. Other net non-interest income

During the Reporting Period, other net non-interest income of the Group was RMB16,086 million, representing an increase of RMB11,774 million, or 273.05%, as compared with the corresponding period of the previous year, which was mainly because after the adoption of new accounting standards for financial instruments, gains from the holding of financial assets at fair value through profit or loss was recorded as net non-interest income and exchange rate fluctuated.

(Unit: RMB million)

Item	January to June 2018	January to June 2017	Change (%)
Net trading gain	14,079	1,426	887.31
Net gain arising from disposals of securities and discounted bills	941	1,685	-44.15
Other operating income	1,066	1,201	-11.24
Total	16,086	4,312	273.05

Discussion and Analysis on Business Operation

(III) Operating expenses

During the Reporting Period, the Group continued to refine financial management and implement cost reduction and efficiency enhancement measures to further optimise its cost structure. Operating expenses amounted to RMB18,870 million, representing an increase of RMB556 million, or 3.04%, as compared with the corresponding period of the previous year.

(Unit: RMB million)

Item	January to June 2018	January to June 2017	Change (%)
Staff cost (including Directors' emoluments)	9,243	8,779	5.29
Rental and property management expenses	2,003	2,122	-5.61
Depreciation and amortisation	1,550	1,652	-6.17
Tax and surcharges	781	753	3.72
Office expenses	483	689	-29.90
Business expenses and others	4,810	4,319	11.37
Total	18,870	18,314	3.04

(IV) Impairment losses on assets

During the Reporting Period, the Group recorded impairment losses on assets of RMB19,531 million, representing an increase of RMB2,392 million, or 13.96%, as compared with the corresponding period of the previous year.

(Unit: RMB million)

Item	January to June 2018	January to June 2017	Change (%)
Loans and advances to customers	19,177	16,330	17.43
Financial assets measured at amortised cost	492	—	N/A
Long-term receivables	292	242	20.66
Financial assets at fair value through other comprehensive income	-90	—	N/A
Loans and receivables	—	345	N/A
Off-balance sheet assets	-309	-156	Negative for both periods
Others	-31	378	Negative for this period
Total	19,531	17,139	13.96

Discussion and Analysis on Business Operation

(V) Income tax expenses

During the Reporting Period, income tax expenses of the Group amounted to RMB6,033 million, representing an increase of RMB196 million as compared with the corresponding period of the previous year, and accounted for 16.81% of the total profit before income tax.

IV. Analysis of Major Items of Statement of Financial Position

(I) Assets

During the Reporting Period, total assets of the Group remained moderate growth. As at the end of the Reporting Period, total assets of the Group amounted to RMB6,061,143 million, representing an increase of RMB159,057 million, or 2.69%, 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 2018		31 December 2017		31 December 2016	
	Amount	% of total	Amount	% of total	Amount	% of total
Gross balance of loans and advances to customers	3,052,658	50.36	2,804,307	47.51	2,461,586	41.76
Less: Allowance for impairment losses on loans at amortised cost	84,874	1.40	74,519	1.26	64,394	1.09
Net balance of loans and advances to customers	2,967,784	48.96	2,729,788	46.25	2,397,192	40.67
Net investment in trading and banking books	2,053,922	33.89	2,135,897	36.19	2,206,909	37.43
Cash and balances with central bank	417,747	6.89	442,938	7.50	524,239	8.89
Balances and placements with banks and other financial institutions and financial assets held under resale agreements	269,755	4.45	271,274	4.60	461,837	7.83
Long-term receivables	112,122	1.85	101,304	1.72	94,791	1.61
Property and equipment	46,706	0.77	48,338	0.82	46,190	0.78
Others	193,107	3.19	172,547	2.92	164,719	2.79
Total	6,061,143	100.00	5,902,086	100.00	5,895,877	100.00

Note: Net investment in trading and banking books includes financial assets at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost; and financial assets at fair value through profit or loss, available-for-sale securities, held-to-maturity securities as well as loans and receivables in comparative period.

Discussion and Analysis on Business Operation

1. Loans and advances to customers

As at the end of the Reporting Period, total loans and advances to customers of the Group amounted to RMB3,052,658 million, representing an increase of RMB248,351 million, or 8.86%, as compared with the end of the previous year. Total loans and advances to customers accounted for 50.36% of total assets, representing an increase of 2.85 percentage points as compared with the end of the previous year.

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

(Unit: RMB million)

Item	30 June 2018		31 December 2017		31 December 2016	
	Amount	% of total	Amount	% of total	Amount	% of total
Corporate loans and advances	1,880,939	61.62	1,698,480	60.57	1,560,664	63.40
Of which: Discounted bills	97,529	3.19	82,650	2.95	165,800	6.74
Personal loans and advances	1,171,719	38.38	1,105,827	39.43	900,922	36.60
Total	3,052,658	100.00	2,804,307	100.00	2,461,586	100.00

The breakdown of personal loans and advances is as follows:

(Unit: RMB million)

Item	30 June 2018		31 December 2017		31 December 2016	
	Amount	% of total	Amount	% of total	Amount	% of total
Loans to small and micro enterprises	406,604	34.70	373,262	33.75	335,074	37.19
Credit card overdrafts	349,608	29.84	294,019	26.59	207,372	23.02
Residential mortgage	339,527	28.98	350,986	31.74	295,875	32.84
Others	75,980	6.48	87,560	7.92	62,601	6.95
Total	1,171,719	100.00	1,105,827	100.00	900,922	100.00

2. Investment in trading and banking books

As at the end of the Reporting Period, net investment in trading and banking books of the Group amounted to RMB2,053,922 million, representing a decrease of RMB81,975 million, or 3.84%, as compared with the end of the previous year, and accounted for 33.89% of the total assets, representing a decrease of 2.30 percentage points as compared with the end of the previous year.

Discussion and Analysis on Business Operation

(1) Structure of investment in trading and banking books

The structure of investment in trading and banking books of the Group is as follows:

(Unit: RMB million)

Item	30 June 2018		31 December 2017	
	Amount	% of total	Amount	% of total
Financial assets measured at amortised cost	1,200,414	58.44	—	—
Financial assets at fair value through profit or loss	490,672	23.89	74,601	3.49
Financial assets at fair value through other comprehensive income	362,836	17.67	—	—
Loans and receivables	—	—	974,163	45.61
Held-to-maturity securities	—	—	708,244	33.16
Available-for-sale securities	—	—	378,889	17.74
Total	2,053,922	100.00	2,135,897	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, and some 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	Allowance for impairment losses
2018 financial bonds	3,700	4.73	2025-04-02	0.67
2016 financial bonds	3,380	3.18	2026-04-05	0.60
2016 financial bonds	3,308	2.96	2019-09-29	2.13
2018 financial bonds	3,290	4.69	2023-03-23	0.60
2013 financial bonds	3,000	4.37	2018-07-29	0.16
2017 financial bonds	3,000	4.20	2020-04-17	1.93
2016 financial bonds	2,760	3.20	2019-07-18	1.78
2018 financial bonds	2,590	4.88	2028-02-09	0.41
2017 financial bonds	2,500	4.30	2020-09-05	1.61
2013 financial bonds	2,480	4.60	2020-04-08	0.33
Total	30,008			10.22

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 RMB269,755 million, representing a decrease of RMB1,519 million, or 0.56%, as compared with the end of the previous year, and accounted for 4.45% of the total assets, representing a decrease of 0.15 percentage points as compared with the end of the previous year.

4. Derivative financial instruments

(Unit: RMB million)

Item	Notional amount	30 June 2018	
		Assets	Liabilities
Currency swaps	1,387,429	19,522	18,565
Interest rate swaps	903,273	1,912	553
Precious metal derivatives	143,483	10,672	1,561
Currency options	123,495	1,056	979
Currency forwards	27,671	257	527
Commodity options	15,979	881	135
Extension options	5,000	—	—
Credit derivatives	463	3	—
Others	996	59	16
Total		34,362	22,336

Discussion and Analysis on Business Operation

(II) Liabilities

As at the end of the Reporting Period, the Group's total liabilities amounted to RMB5,653,299 million, representing an increase of RMB141,025 million, or 2.56%, 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 2018		31 December 2017		31 December 2016	
	Amount	% of total	Amount	% of total	Amount	% of total
Deposits from customers	3,157,881	55.86	2,966,311	53.81	3,082,242	55.60
Deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements	1,346,021	23.81	1,423,515	25.82	1,521,274	27.44
Debt securities issued	549,420	9.72	501,927	9.11	398,376	7.19
Borrowings from central bank and other financial institutions	460,773	8.15	482,172	8.75	437,912	7.90
Others	139,204	2.46	138,349	2.51	104,046	1.87
Total	5,653,299	100.00	5,512,274	100.00	5,543,850	100.00

Discussion and Analysis on Business Operation

1. Deposits from customers

As at the end of the Reporting Period, deposits from customers of the Group amounted to RMB3,157,881 million, representing an increase of RMB191,570 million, or 6.46%, as compared with the end of the previous year, and accounted for 55.86% of the total liabilities. In respect of customer structure, the proportions of corporate deposits, personal deposits and other deposits in total deposits were 81.70%, 17.81% and 0.49%, respectively. In respect of maturity structure, the proportions of demand deposits, time deposits and other deposits in total deposits were 41.69%, 57.82% and 0.49%, respectively.

(Unit: RMB million)

Item	30 June 2018		31 December 2017		31 December 2016	
	Amount	% of total	Amount	% of total	Amount	% of total
Corporate deposits	2,580,107	81.70	2,455,247	82.77	2,522,232	81.83
Demand	1,114,940	35.30	1,187,367	40.03	1,141,097	37.02
Time	1,465,167	46.40	1,267,880	42.74	1,381,135	44.81
Personal deposits	562,392	17.81	492,008	16.59	540,548	17.54
Demand	201,674	6.39	182,652	6.16	167,686	5.44
Time	360,718	11.42	309,356	10.43	372,862	12.10
Certificates of deposit	10,378	0.33	12,069	0.41	12,792	0.42
Outward remittance and remittance payables	5,004	0.16	6,987	0.23	6,670	0.21
Total	3,157,881	100.00	2,966,311	100.00	3,082,242	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 RMB1,346,021 million, representing a decrease of RMB77,494 million, or 5.44%, as compared with the end of the previous year.

3. Debt securities issued

As at the end of the Reporting Period, total debt securities issued by the Group amounted to RMB549,420 million, representing an increase of RMB47,493 million, or 9.46%, as compared with the end of the previous year. The increase was mainly due to the increase in the issuance scale of IBNCD.

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 RMB407,844 million, representing an increase of RMB18,032 million, or 4.63%, as compared with the end of the previous year. Among which, total equity attributable to equity shareholders of the Company amounted to RMB397,042 million, representing an increase of RMB18,072 million, or 4.77%, as compared with the end of the previous year. The increase in the shareholders' equity was mainly due to the increase of net profit of the Group.

(Unit: RMB million)

Item	30 June 2018	31 December 2017	Change (%)
Share capital	43,782	36,485	20.00
Other equity instruments	9,892	9,892	—
Of which: Preference shares	9,892	9,892	—
Reserves	165,278	169,173	-2.30
Of which: Capital reserve	57,457	64,753	-11.27
Surplus reserve	34,914	34,914	—
General reserve	74,304	74,168	0.18
Other reserves	-1,397	-4,662	Negative for both periods
Retained earnings	178,090	163,420	8.98
Total equity attributable to equity shareholders of the Company	397,042	378,970	4.77
Non-controlling interests	10,802	10,842	-0.37
Total	407,844	389,812	4.63

(IV) Off-balance sheet items

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

(Unit: RMB million)

Item	30 June 2018	31 December 2017	Change (%)
Bank acceptances	477,075	461,630	3.35
Guarantees	142,206	141,929	0.20
Letters of credit	107,645	107,523	0.11
Unused credit card commitments	105,807	100,714	5.06
Capital commitments	17,080	19,116	-10.65
Operating lease commitments	13,838	14,003	-1.18
Finance lease commitments	4,857	3,160	53.70
Irrevocable loan commitments	3,487	4,286	-18.64

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》) of June 2018 released by the PBOC, 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 amounted to 13.15%, representing an increase of 0.01 percentage points as compared with the end of the previous year. Among nine national joint-stock commercial banks in China, the market share of total loans of the Company amounted to 13.71%, representing an increase of 0.23 percentage points as compared with the end of the previous year. (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 2018		31 December 2017	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Leasing and commercial services	350,957	11.50	275,289	9.82
Manufacturing	338,025	11.07	335,206	11.95
Real estate	328,905	10.77	256,127	9.13
Wholesale and retail	208,598	6.83	221,770	7.91
Mining	125,539	4.11	125,949	4.49
Water, environment and public utilities management	99,717	3.27	89,079	3.18
Financial services	95,743	3.14	103,672	3.70
Construction	92,559	3.03	75,924	2.71
Transportation, storage and postal service	82,943	2.72	81,176	2.89
Production and supply of electric power, heat, gas and water	58,930	1.93	52,021	1.86
Agriculture, forestry, animal husbandry and fishery	14,406	0.47	10,788	0.38
Accommodation and catering	10,888	0.36	7,494	0.27
Public administration, social security and social organisations	10,255	0.34	10,284	0.37
Others	63,474	2.08	53,701	1.91
Subtotal	1,880,939	61.62	1,698,480	60.57
Personal loans and advances	1,171,719	38.38	1,105,827	39.43
Total	3,052,658	100.00	2,804,307	100.00

Discussion and Analysis on Business Operation

(II) Geographical distribution of loans

(Unit: RMB million)

Item	30 June 2018		31 December 2017	
	Amount	% of total	Amount	% of total
Northern China	871,255	28.54	923,083	32.92
Eastern China	957,910	31.38	810,954	28.92
Southern China	471,041	15.43	392,912	14.01
Other regions	752,452	24.65	677,358	24.15
Total	3,052,658	100.00	2,804,307	100.00

Note: Northern China includes the Head Office, the branches in Beijing, Taiyuan, Shijiazhuang, Tianjin and Minsheng Financial Leasing, Ningjin Rural Bank; Eastern China includes the branches in Shanghai, Nanjing, Hangzhou, Jinan, Suzhou, Shanghai Free Trade Zone, Hefei, Qingdao, Ningbo, Wenzhou, Nanchang and 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; Southern China includes the branches in Shenzhen, Guangzhou, Fuzhou, Xiamen, Nanning, Quanzhou, Shantou, Haikou and Minsheng Royal Fund, Anxi Rural Bank, Zhangpu Rural Bank, Xiang'an Rural Bank; Other regions include the branches in Hong Kong, Chengdu, Wuhan, Zhengzhou, Chongqing, Xi'an, Dalian, Changsha, Kunming, Guiyang, Hohhot, Shenyang, Changchun, Lanzhou, Urumqi, Lhasa, Harbin, Xining, Yinchuan and 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.

(III) Classification and percentage of loans by types of collateral

(Unit: RMB million)

Item	30 June 2018		31 December 2017	
	Amount	% of total	Amount	% of total
Unsecured loans	737,663	24.16	678,023	24.18
Guaranteed loans	652,201	21.37	632,828	22.57
Loans secured by				
— Tangible assets other than monetary assets	1,245,467	40.80	1,134,722	40.46
— Monetary assets	417,327	13.67	358,734	12.79
Total	3,052,658	100.00	2,804,307	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 total loans to the Group's top ten loan customers were RMB63,108 million, accounting for 2.07% of total loans and advances to customers. The top ten loan customers were as follows:

(Unit: RMB million)

Top ten loan customers	Total loans	% of total loans
A	11,087	0.36
B	8,833	0.29
C	6,822	0.22
D	6,189	0.20
E	5,686	0.19
F	5,425	0.18
G	4,934	0.16
H	4,900	0.16
I	4,733	0.16
J	4,499	0.15

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

(Unit: %)

Major indicator	Benchmark	30 June 2018	31 December 2017	31 December 2016
Percentage of loans to the single largest loan customer	≤10	2.05	2.69	1.64
Percentage of loans to the top ten loan customers	≤50	11.69	12.04	12.21

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 NPL ratio of the Group was 1.72%, representing an increase of 0.01 percentage points as compared with the end of the previous year.

(Unit: RMB million)

Item	30 June 2018		31 December 2017		
	Amount	% of total	Amount	% of total	Change (%)
Performing loans	3,000,002	98.28	2,756,418	98.29	8.84
Of which: Pass	2,886,503	94.56	2,642,469	94.23	9.24
Special-mention	113,499	3.72	113,949	4.06	-0.39
NPLs	52,656	1.72	47,889	1.71	9.95
Of which: Substandard	20,175	0.66	17,048	0.61	18.34
Doubtful	21,900	0.72	21,198	0.76	3.31
Loss	10,581	0.34	9,643	0.34	9.73
Total	3,052,658	100.00	2,804,307	100.00	8.86

(VI) Migration ratio of loans

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

(Unit: %)

Item	30 June 2018	31 December 2017	31 December 2016
Pass	1.41	3.62	5.23
Special-mention	12.02	16.95	22.48
Substandard	37.51	46.54	60.97
Doubtful	21.00	18.90	38.81

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 RMB17,230 million, representing an increase of RMB2,393 million as compared with the end of the previous year. The percentage of restructured loans to total loans and advances to customers was 0.56%, representing an increase of 0.03 percentage points as compared with the end of the previous year. The balance of overdue loans was RMB96,465 million, representing an increase of RMB7,348 million as compared with the end of the previous year. The percentage of overdue loans to total loans and advances to customers was 3.16%, representing a decrease of 0.02 percentage points as compared with the end of the previous year.

(Unit: RMB million)

Item	30 June 2018		31 December 2017	
	Amount	% of total	Amount	% of total
Restructured loans	17,230	0.56	14,837	0.53
Overdue loans	96,465	3.16	89,117	3.18

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 2018		31 December 2017	
	Balance	Allowance for impairment losses	Balance	Allowance for impairment losses
Repossessed assets	11,287	86	11,099	85
Of which: Real estate and land use right	10,426	86	10,252	85
Motor vehicles	186	—	186	—
Others	675	—	661	—

Discussion and Analysis on Business Operation

(IX) Changes in allowance for impairment losses on loans

(Unit: RMB million)

Item	30 June 2018	31 December 2017
Opening balance	85,810	64,394
Charge for the period/Release during the period	19,177	32,180
Write-offs and Transfer out during the period	-19,712	-22,798
Recoveries	956	1,773
Unwinding of discount	-442	-832
Exchange gain or loss	-98	-198
Ending balance	85,691	74,519

Method for assessing allowance for impairment losses on loans:

According to the International Financial Reporting Standards No. 9 – Financial instrument (IFRS 9), the Company adopted the new accounting standard for financial instruments and used the expected credit loss model to calculate the allowance for impairment losses since 1 January 2018. According to the new standard for financial instruments, for retail loans and non-retail loans in phase 1 and phase 2, the allowance for impairment losses is provided based on risk parameters such as probability of default (PD), loss given default (LGD) estimated by the internal rating system. For non-retail loans in phase 3, the allowance for impairment losses is provided based on the expected recovery of cash flow for each single loan. After the adoption of the new standard, the Company strengthened its ability of the provision of allowance for impairment losses and the risk coverage of the provision was further enhanced.

(X) NPLs and related measures

As at the end of the Reporting Period, the Group had NPL balance of RMB52,656 million, representing an increase of RMB4,767 million, or 9.95%, as compared with the end of the previous year.

Discussion and Analysis on Business Operation

1. Industry concentration of NPLs

(Unit: RMB million)

Item	30 June 2018		31 December 2017	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	13,837	26.28	12,392	25.89
Wholesale and retail	6,969	13.23	7,031	14.68
Mining	1,646	3.13	2,166	4.52
Construction	1,365	2.59	788	1.65
Leasing and commercial services	1,073	2.04	859	1.79
Real estate	989	1.88	552	1.15
Transportation, storage and postal service	590	1.12	983	2.05
Agriculture, forestry, animal husbandry and fishery	449	0.85	403	0.84
Financial services	425	0.81	15	0.03
Accommodation and catering	358	0.68	85	0.18
Production and supply of electric power, heat, gas and water	285	0.54	322	0.67
Others	255	0.48	158	0.33
Subtotal	28,241	53.63	25,754	53.78
Personal loans and advances	24,415	46.37	22,135	46.22
Total	52,656	100.00	47,889	100.00

2. Geographical distribution of NPLs

(Unit: RMB million)

Item	30 June 2018		31 December 2017	
	Amount	% of total	Amount	% of total
Northern China	22,296	42.34	19,843	41.43
Eastern China	11,866	22.54	11,053	23.08
Southern China	5,126	9.73	4,433	9.26
Other regions	13,368	25.39	12,560	26.23
Total	52,656	100.00	47,889	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 optimising asset structure in line with the national macro-economic policies, industrial policies and regional policies, the latest regulatory requirements, and development strategies and risk preferences determined by the Board.
- (2) Continuously improving management policies on asset portfolios by imposing multidimensional risk limit management and portfolio management for different industries, customers and products.
- (3) Strictly controlling risk of new credit facilities. Greater efforts were exerted to 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. The Company established a risk early-warning system to realise an automatic and intelligent collecting, analysing and reporting of risk information. A new top-down alert management model of data-driven and active management was set up to further strengthen the risk management of the entire process. In addition, post-loan management was enhanced for existing loans. A management and supervision system for loan rating was established. A regular monitoring, inspection and reporting system was put in place to enhance supervision over major industries, regions and products and duly carry out proper risk prevention.
- (5) Further enhancing collection and disposal of NPLs. Through measures including carrying out dedicated collection and disposal activities, enhancing indicator monitoring and formulating special collection and disposal plans for particular customers and recovery and disposal measures such as repayment collection, restructuring, assignment, foreclosing, legal action and writing-off, the Company improved the efficiency of collection and disposal work.
- (6) Through improving the rules and regulations, strengthening accountability and prevention and control of key areas, and commencing remedial plan for specific issues and compliance training, the Group achieved positive results in establishing the philosophy of law-compliant operation and in preventing and defusing risks, improving asset quality and promoting operation compliance.

VI. Analysis of Capital Adequacy Ratio

The Group calculated its capital adequacy ratio in accordance with the Capital Rules for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (the “New Rules”) 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 Rules. 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 Rules of the CBRC.

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

(Unit: RMB million)

Item	30 June 2018	
	The Group	The Company
Net core tier-one capital	393,074	373,856
Net tier-one capital	403,918	383,724
Total net capital base	539,752	515,238
Core tier-one capital	394,302	380,413
Core tier-one capital deductions	-1,228	-6,557
Other tier-one capital	10,844	9,892
Other tier-one capital deductions	—	-24
Tier-two capital	135,834	131,546
Tier-two capital deductions	—	-32
Total risk-weighted assets	4,551,683	4,353,791
Of which: Credit risk-weighted assets	4,191,414	4,001,258
Market risk-weighted assets	81,513	84,319
Operational risk-weighted assets	278,756	268,214
Core tier-one capital adequacy ratio (%)	8.64	8.59
Tier-one capital adequacy ratio (%)	8.87	8.81
Capital adequacy ratio (%)	11.86	11.83

Capital instruments entitled for the preferential policy during the transitional period: According to the applicable requirements under the New Rules, 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 RMB9.0 billion, which can be put into the calculation.

Discussion and Analysis on Business Operation

As at the end of the Reporting Period, the net tier-one capital increased by RMB11,711 million, on- and off-balance sheet assets after adjustment increased by RMB74,997 million, while the leverage ratio increased by 0.11 percentage points, as compared with the end of March 2018. The leverage ratio of the Group is as follows:

(Unit: RMB million)

Item	30 June 2018	31 March 2018	31 December 2017	30 September 2017
Leverage ratio (%)	5.98	5.87	5.81	5.91
Net tier-one capital	403,918	392,207	385,414	377,875
On- and off-balance sheet assets after adjustment	6,754,419	6,679,422	6,629,353	6,389,647

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, retail 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	5,008,254	29,933	11,811
Eastern China	1,278,785	17,773	10,394
Southern China	646,404	13,554	9,493
Other regions	995,714	13,027	4,188
Inter-segment elimination	-1,897,597	—	—
Total	6,031,560	74,287	35,886

Note: Inter-segment elimination refers to intra-group transaction of the Group.

(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	1,887,546	33,432	15,289
Personal banking business	1,154,835	26,651	11,009
Treasury business	2,794,164	12,654	9,034
Other businesses	195,015	1,550	554
Total	6,031,560	74,287	35,886

Discussion and Analysis on Business Operation

VIII. Other Financial Information

(I) Explanation on changes in accounting policies

During the Reporting Period, the details of the changes on the accounting policies of the Company and their effects were disclosed in Note 2 “Basis of preparation and accounting policies” to the 2018 interim financial statements.

(II) 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 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 optimise 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, financial assets and precious metals at fair value through other comprehensive income. In particular, the valuation methods of financial assets at fair value through profit or loss and the bond investment of the financial assets at fair value through other comprehensive income 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 Kondor quotes.

Discussion and Analysis on Business Operation

(Unit: RMB million)

Item	1 January 2018	Gain/loss from fair value changes for the period	Accumulated fair value changes charged to equity	Impairment allowance for the period	30 June 2018
Financial assets					
Of which: Precious metals	20,551	-718	—	—	9,422
Financial assets at fair value through profit or loss	577,388	119	—	—	490,672
Loans and advances to customers at fair value through other comprehensive income	89,022	—	-315	-157	100,802
Positive fair value of derivatives	18,734	15,613	46	—	34,362
Financial assets at fair value through other comprehensive income	345,207	—	-3,258	90	362,836
Total	1,050,902	15,014	-3,527	-67	998,094
Financial liabilities					
Of which: Financial liabilities at fair value through profit or loss	-3,373	-2	—	—	-1,455
Negative fair value of derivatives	-18,076	-4,260	—	—	-22,336
Total	-21,449	-4,262	—	—	-23,791

(III) 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 and investment banking

During the Reporting Period, in response to the new changes and new challenges in market and regulatory environment, the Company adopted reform and business development as two major strategies, implementing transformation so as to promote development. By implementing NSOE strategies, strengthening the stratified management of customers and focusing on quality liabilities, the Company optimised its asset business structure and accelerated its product innovation for further growth of its corporate banking business.

Discussion and Analysis on Business Operation

1. Customers of corporate banking

During the Reporting Period, adhering to the customer-oriented management philosophy, the Company 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”. For fundamental customer base, as at the end of the Reporting Period, domestic corporate customers with deposits of the Company increased by 79.8 thousand, or 7.88%, to 1,092.6 thousand as compared with the end of the previous year. The number of domestic customers of the Company with general loans balance was 11,088. For strategic customers, the Company fostered the development of strategic NSOE customers by providing stronger support according to the requirements of the three-year plan of the Board. Through cooperative operation model, three major lines of products and services, i.e. corporate, retail and financial markets, were integrated, synergetic supports among the mid and back offices were promoted and comprehensive, differentiated, extensive and precise service system for strategic customer base was gradually formed.

2. Corporate deposits and loans

During the Reporting Period, the Company further consolidated its customer base, strengthened the development of its settlement business platform and expanded institutional finance. In response to the new changes and trends of the national economic development as well as the transformation and upgrades 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 under the national key strategies and in the construction of new urbanisation, and enhanced the support for national strategies including “Belt and Road Initiative”, the coordinated development of the Beijing-Tianjin-Hebei region as well as the Yangtze River Economic Belt. The Company also optimised its credit business structure and industry structure by restricting loans to industries with overcapacity, such as steel and coal industries, in order to realise the healthy development of asset business. As at the end of the Reporting Period, the balance of corporate deposits of the Company amounted to RMB2,563,658 million, representing an increase of RMB128,911 million, or 5.29%, as compared with the end of the previous year. The balance of corporate loans of the Company amounted to RMB1,877,516 million, among which, the balance of general corporate loans amounted to RMB1,780,649 million, representing an increase of RMB162,833 million, or 10.06%, as compared with the end of the previous year. The non-performing corporate loan ratio was 1.49%.

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3. Investment banking

During the Reporting Period, the Company efficiently implemented the reform on investment banking business framework and further adopted new investment banking business model. The Company expanded and optimised the four major business segments of capital markets and two major products of bond issuance and securitisation. “Technology Innovation Loan (科創貸)” was introduced to broaden the multi-layered investment banking business and product system to facilitate the change of business focus to investment banking business.

During the Reporting Period, in respect of the capital market business of the Company, the development of major segments has been gradually manifested. The core customer base of investment banking has been preliminarily established and the project categorisation management mechanism has been strengthened.

In respect of the bond underwriting business, the Company strengthened the division of operating and refined management and the potential of such business has been improved significantly. The Company also strictly controlled risks and improved overall quality and rating of the projects. During the Reporting Period, the market share of bond issuance business of the Company increased and ranked ninth among the peers.

In respect of the asset securitisation business, the Company continued to introduce innovative products and successfully launched the first securitisation of supply chain financing project under the “Belt and Road Initiative” in China and PPP asset-backed securitisation project for tertiary education.

4. Transaction Banking

During the Reporting Period, the Company strongly promoted the upgrade of scenarised financial services of transaction banking and enriched the offering of its four major product lines, namely the international business, settlement and cash management, domestic trade financing and factoring and corporate Internet financing. To effectively satisfy various financial needs of customers, the Company provided more comprehensive online, smart and convenient products and service experiences to customers. The transformation and update of its service model was further achieved.

Firstly, the Company introduced innovative service model of international business to enhance its international business market competitiveness. During the Reporting Period, the Company was highly aware of the changes in the market. To meet the international financial needs of customers and to strengthen the cash management of cross-border transactions, and to facilitate the

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development and integrated use of innovative products such as Minsheng Global Fast Payment GPI (民生環球速匯GPI), the Company actively invested in overseas projects grasped “going out” chances by undertaking overseas projects. The Company further enhanced its capacity to offer customers with comprehensive and customised cross-border financial services. Through continuously exploring new business opportunities, the total assets and liabilities denominated in foreign currencies increased significantly, and the volume of cross-border settlement continued to grow.

Secondly, the Company modified its settlement and cash management business according to changes in customers’ needs and further improved its product offering. During the Reporting Period, the Company continuously optimised the three major cash management product systems of “Express (通)”, “Pool (聚)” and “Earnings (盈)” to fully satisfy different financial needs of customers. Products of the “Express (通)” series integrated basic services including account and payment with the daily production and operation scenarios of enterprises according to the characteristics of customers’ needs in different industries, and provided personalised financial solutions in respect of digitalised transformation and service upgrade for corporate and governmental customers. The “Pool (聚)” series focused on satisfying the multi-layer funding management requirements at home and abroad of group customers, which had effectively enhanced the service capabilities for group customers. The “Earnings (盈)” series provided enterprises with open-ended services for capital growth and various customers with different options. These products had gained wide market recognition.

Thirdly, the Company enhanced the scenarised product design and promotion of domestic trade finance and factoring products to consolidate its leading market position. During the Reporting Period, the Company developed different scenario of trade financial products to further enhance the Company’s distinctive competitiveness in its trade finance business. Based on the characteristics of its strategy, supply chain finance and small and medium corporate customer base, the Company accelerated the promotion of distinctive products, such as non-recourse factoring and “N+1” factoring, and significantly enhanced the market development.

Fourthly, the Company continued to upgrade its digital services to effectively improve customers’ experience. During the Reporting Period, the Company implemented the scenarised and intellectualised upgrade of digital products. The Company made online transformation from basic financing products to various types of on- and off-balance sheet financing products, from domestic to international and from settlement to all ranges of financing products, which efficiently enhanced the coverage of credit scenarios under the Internet financing model.

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(II) Retail banking

During the Reporting Period, the economy in China has been growing stably and the economic structure has been optimised. The economy in China will continue to grow steadily as a whole. In respect of the financial market, the introduction of new regulations on assets management and tightening of regulation and deleverage resulted in deceleration in the growth of M2 and liquidity and higher capital costs. The development of retail banking business was much more challenging.

During the Reporting Period, the Board of the Company has considered and approved the implementation of the Reform Plan and the Three-Year Development Plan. According to the philosophy of transformation of retail banking, the Company focused on the development of three major customer bases, including NSOE ecosystem customer group, small business customer group, and private banking entrepreneur customer group. The Company promoted digital marketing by using big data technology. Business development focused on assets management and wealth management business and the application of advanced technology for online operation. The Company further developed its scenarised financing business through integration of its business channels for better customer experience. To improve risk management, the Company accelerated the development and enhancement of standardised and vertical retail management system. During the Reporting Period, the Company began the reform of retail banking and various measures were implemented satisfactorily.

During the Reporting Period, the principal business of retail banking of the Company maintained stable and relatively fast growth. The operating income from retail banking business of the Company was RMB26,384 million, accounting for 36.56% of the total operating income of the Company, which represented an increase of 0.41 percentage points as compared with the corresponding period of the previous year. Net non-interest income from retail banking business was RMB16,036 million, accounting for 60.78% of income from retail banking business and 60.76% of net non-interest income of the Company, which represented an increase of 13.15 percentage points and 18.37 percentage points as compared with the corresponding period of the previous year, respectively (calculated based on the non-interest income after the adjustment of the gain from the holding of financial assets at fair value through profit or loss).

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1. Retail customers

The Company established three special customer groups, including NSOE ecosystem customer group, small business customer group and private banking entrepreneur customer group based on the NSOE banking strategy; and two major customer groups, including wealth management customer group and millennials customer group. With distinguished division of each customer group, the Company is able to precisely allocate the resources to enhance the customer services. The Company strives to develop its unique competitive advantages through the development of special customer groups.

During the Reporting Period, the Company continued to strengthen the cross-selling between corporate banking and retail banking businesses and increase the customers and scale of payroll service. The Company accelerated the development of service platforms such as Payment Express (繳費通) and ETC and promoted the cross-selling of credit cards and debit cards. The customer base was further expanded by the above measures focusing on high quality customers. The Company strengthened the brand promotion by organising a series of “Your Considerate Bank (懂你的銀行)” activities for 2018 and a theme day for retail banking on 6 June. Through such innovative activities, the Company’s brand was introduced for more than 10 million times.

As at the end of the Reporting Period, the number of retail customers with deposits of the Company (customers of the Company with daily average of financing assets more than zero on monthly basis) was 36,356.2 thousand, representing an increase of 1,752.8 thousand as compared with the end of the previous year.

2. Financial assets

During the Reporting Period, the Company adapted to the new regulatory requirements of asset management by speeding up the transformation of wealth management business. The Company introduced “234” reforms scheme of Phoenix C7 wealth management and unified the direction of the reforms, focusing on six major initiatives, including the building of FC team, standard management and operation system, data marketing and management, assessment of core positions, wealth management partners scheme and product improvement, in order to enhance the operation of wealth management.

During the Reporting Period, the Company further sped up the shifting from expected revenue-generated wealth management products to net value wealth management products. The sales of net value wealth management products to individual customers was approximately 26 times of that of the last whole year. The Company optimised the asset allocation of individual customers by introducing structural deposit products, including “new deposit for higher interest”, “flexi-deposits”

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targeting at deposits-driven customers. The Company also endeavoured to promote critical illness insurance, life insurance, education savings scheme, endowment and other protection products in order to satisfy the growing medical, education, pension as well as other security needs of customers. The Company launched the “All Year” marketing campaign, resulting in fast growth of individual customers’ assets. Moreover, the Company improved its comprehensive financial services for micro and small corporate customers focusing on insurance, funds, wealth management products and other key products to promote cross-selling to micro and small corporate customers and the general development of the Company. Furthermore, the Company further optimised its private banking business model and promoted the establishment of standard private banking centres, enriched exclusive private banking products and developed investment and financing system for private banking corporate customers.

As at the end of the Reporting Period, financial assets of individual customers under management of the Company amounted to RMB1,578,087 million, representing an increase of RMB141,727 million as compared with the end of the previous year. Balance of retail deposits (including the deposits to small and micro enterprises) amounted to RMB631,418 million, representing an increase of RMB80,258 million as compared with the end of the previous year. Among which, savings deposit amounted to RMB552,259 million, representing an increase of RMB70,021 million as compared with the end of the previous year.

3. Retail loans

During the Reporting Period, the Company optimised the allocation of credit resources according to changes in economic condition, market environment and funding cost and focused on small business finance, credit card business and consumption finance. The Company also increased the retail credit resources and promoted the restructuring of retail loans under the premise of effective control of risks.

In respect of small business finance, according to the government policy on inclusive financial development, the Company implemented a new business model for small business finance. The increase in small business loans supported the development of small and micro enterprises. In respect of credit card business, the Company further promoted the development of credit card business and launched a brand new slogan focusing on the “millennium generation”. The Company also strengthened its product innovation and promoted online application of credit cards and online operation. In respect of consumption finance, the Company accelerated the transformation of consumption finance business and focused on the development of scenarised finance such as auto finance, house leasing and home improvement. The Company gradually improved its performance

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in consumer acquisition and development to meet the growing needs of consumption finance of individual customers. In respect of housing loans, the Company strictly complied with the real estate regulation and control policies of the central and local governments. The Company also selected high-quality houses at prime locations and reasonably supported the residents' demand for self-occupied housing purchases in accordance with the regulatory policies to adjust loan structure and to increase the yield from loans.

As at the end of the Reporting Period, retail loans of the Company amounted to RMB1,159,172 million, representing an increase of RMB70,254 million as compared with the end of the previous year. Among which, loans to small and micro enterprises increased by RMB39,598 million, or 11.03%, to RMB398,745 million as compared with the end of the previous year. Pledged and secured loans to small and micro enterprises accounted for 81.62% of the total loans to small and micro enterprises, representing an increase of 5.98 percentage points as compared with the end of the previous year. The risk resistance capability was further strengthened. The balance of consumption loans amounted to RMB410,819 million, representing a decrease of RMB24,933 million as compared with the end of the previous year; among which the balance of housing loans amounted to RMB337,252 million, representing a decrease of RMB11,821 million as compared with the end of the previous year.

4. Small business finance

During the Reporting Period, according to the government policy on inclusive financial development, the Company continued to implement the reform, transformation and development plan for small business finance. It further promoted the new business model of small business finance, enhanced product and service innovation, consolidated customer base and further enhanced comprehensive financial services. Loans increased significantly and sources of income were diversified. Fintech support was strengthened to improve smart services and digitalised management.

Firstly, the scale of the loan was expanded and the asset business structure was optimised. During the Reporting Period, the small business finance focused on expanding quality customer base. The selection of customers was improved by using quantitative model to identify and assess risk, resulting in higher proportion of quality customers. On the other hand, more resources were allocated to mortgage loans. The proportion of mortgage loans was significantly increased and the risk mitigation capability of the Company was strengthened.

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Secondly, the Company strengthened product and service innovation and established its online and streamlined operation. During the Reporting Period, the Company continued to use mobile Internet technology and big data to launch and promote “value-added loan” products to existing high-quality mortgage customers. “Tax-based online loan” products based on reliable data from third parties were introduced to optimise “online loan 1.0” product, a recurrent loan product. The Company intended to speed up the exploration of new online development methods and strove to enhance the customer experience.

Thirdly, the Company further improved its comprehensive financial services for small business customers and the allocation of customers’ assets. During the Reporting Period, the Company continued to enrich and improve the small business finance wealth management product system, expanded online sales channels, and promoted the cross-selling of key products such as insurance, funds and wealth management. The revenue of intermediary business was greatly improved.

Fourthly, the Company innovated the settlement methods and improved the settlement service. The Company innovated the settlement model for small business and launched smart education, smart rent collection and other settlement applications for the industry. The Company also strengthened the promotion of key services such as cloud accounts for small and micro enterprises and payment and settlement through third party in order to attract customer account transactions.

Fifthly, the Company accelerated the development of digital finance for small business finance and strengthened fintech support. During the Reporting Period, the Company established small business 3.0 project team to effectively promote the development of data smart and refined database marketing. The Company has developed the “small business home” online service platform, mobile customer management platform, exclusive small business services through mobile banking as well as other systems. The Company enhanced its services for small business finance by using fintech and laid the foundation for long-term sustainable development.

As at the end of the Reporting Period, the Company had 7,102.4 thousand small business customers, representing an increase of 1,178.2 thousand, or 19.89%, as compared with the end of the previous year. During the Reporting Period, the Company provided a total of RMB241,301 million loans to small and micro enterprises.

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5. Credit card business

During the Reporting Period, the Company strategically focused on the core target customer group, the “millennium generation”, in respect of its credit card business. It provided comprehensive support focusing on target customers from brand positioning, product design, rights and interests and business scenarios. In terms of brand, a new brand slogan, “Minsheng credit card, you can always trust (民生信用卡·信任長在)”, was adopted to reflect the solemn commitment of Minsheng to customers: always being trustworthy, serving faithfully, mutual trust and long-term companion. In respect of products and rights, the Company launched Li Yifeng card, free portable WIFI rental and other special products and services welcomed by young customers according to their ideology, behaviours, preferences and consumption pattern of the “millennium generation”. In respect of business scenarios, the Company made use of the labelling and profiling of the “millennial generation” customers based on big data, and the operation platform and scenario inclusion were fully explored through APP encompassing every aspect of life so that targeted marketing and business scenario was effectively integrated. During the Reporting Period, 2,348.9 thousand new customers of the “millennium generation” was recorded with increasing trading volume contribution ratio and revenue contribution ratio. The risk indicators such as delinquency rate were also better than the overall average.

As at the end of the Reporting Period, the aggregate number of issued credit cards of the Company was 43,695.4 thousand, of which, 4,956.8 thousand were newly issued during the Reporting Period. Transaction volume of credit card business was RMB1,024,257 million, representing an increase of 41.01% as compared with the corresponding period of the previous year. Accounts receivable amounted to RMB349,608 million, representing an increase of 18.91% as compared with the end of the previous year. Fee and commission income amounted to RMB12,632 million, representing an increase of 28.33% as compared with the corresponding period of the previous year.

During the Reporting Period, the credit cards of the Company were awarded the “Most Influential Brand in the Consumer Market of China (中國消費市場行業影響力品牌)” for 2018, “2017 Outstanding Contribution for Cross-border Transactions Award (2017年跨境交易卓越貢獻獎)” and “2017 Outstanding Innovative Product Award (2017卓越創新產品獎)” from VISA, and “2017 Award for Innovative Design of UnionPay Products (2017年銀聯卡產品設計創新獎)” from China UnionPay. The Credit Card Centre of the Company was recognised as “Civilised Unit of CBRC System for 2016-2017 (2016-2017年度銀監會系統文明單位)”.

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6. Private banking business

During the Reporting Period, the Company effectively improved the private banking business based on the in-depth understanding of its customers. The establishment of the private banking wealth management system has achieved remarkable results. The establishment of private banking centres in branches was carried out in an orderly manner. The division of customers for management and standardisation of management were introduced, resulting in higher productivity. Professional operation was strengthened, private banking products portfolio was further enriched, asset allocation process was accelerated, customer group structure was further optimised, and the customer retention rate was significantly improved. The Company also further utilised the effects of its entrepreneur customers as value pivots and focused on special high-end customers. From individual customers to enterprise customers, and through cooperation among different sectors, the Company strove to provide one-stop integrated financial services for corporate customers. The Company strove to become entrepreneurs' first choice of private banking so as to improve the overall profitability. The Company launched new products of asset management, family trust, high-end insurance, private placement underwriting and overseas business to increase the supply of private banking exclusive products and enrich its products portfolio to continuously meet wealth management needs of the customers. Customer base size and sales hit their record highs. Breakthroughs were made in the sale of private equity products and family trust business, and the value of assets of family customers under the management of the Company grew rapidly. Through continuous cooperation with professional overseas organisations, overseas asset allocation platforms such as overseas funds and overseas insurance have been gradually improved. The Company continuously optimised sales channel construction and customer experience enhancement with fintech services.

As of the end of the Reporting Period, number of private banking customers with daily average on monthly basis financial assets of more than RMB8 million were 18,350, representing an increase of 11.50% as compared with the end of the previous year. The balance of financial assets under the Company's management of eligible private banking customers was RMB332,287 million, representing an increase of 8.28%, or RMB25,408 million, as compared with the end of the previous year.

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7. Community finance

The Company thoroughly implemented the government strategy of “inclusive finance”, comprehensively promoted the upgrading of community financial business model and established a community financial business development management system. The Company promoted the sustainable and healthy operation of community outlets and enhanced the service experience of community customers. During the Reporting Period, the community financial capacity of the Company was enhanced significantly. As at the end of the Reporting Period, the Company had 1,523 licensed community branches, representing a decrease of 99 branches as compared with the end of the previous year; 160 small business sub-branches, representing an increase of 6 branches as compared with the end of the previous year. The balance of financial assets of the community (small business) outlets was RMB248,904 million, representing an increase of RMB30,847 million as compared with the end of the previous year, and the average financial assets of the community network were RMB148 million. The balance of savings was RMB77,567 million, representing an increase of RMB17,623 million as compared with the end of the previous year, mainly due to the increase in saving deposits. The number of customers was 6,128.9 thousand, representing an increase of 340.1 thousand as compared with the end of the previous year, of which 760.5 thousand customers are at or above valid level, representing an increase of 56.6 thousand as compared with the end of the previous year. The customer base was further consolidated.

(III) Treasury business

1. Investment business

During the Reporting Period, the Company continued to enhance its service for real economy, optimised the asset structure of major categories, and improved the efficiency of investment business under the premise of controlling the proportion of investment. As at the end of the Reporting Period, the Company's net investment in trading and banking books was RMB2,040,374 million, representing a decrease of 3.99%, or RMB84,742 million, when compared with the end of the previous year. Percentage of net investment in trading and banking books in the total assets decreased by 2.56 percentage points as compared with the end of the previous year.

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2. Interbank business

During the Reporting Period, the Company implemented the reform and transformation measures as planned, and continued with the transformation from product-orientated to customer-orientated for interbank business. The Company strengthened the management of interbank customer groups, optimised the interbank business structure, and achieved stable and healthy development of interbank business. The risk and quality management and control was satisfactory.

In respect of customer management, the Company adopted multi-level management of interbank customers, established differentiated marketing management system according to customer value, formulated marketing guidelines for classified interbank customers and marketing plans for key interbank customers, and effectively strengthened integrated customer marketing.

In respect of business development, the Company stabilised liabilities management and continued to refine interbank business structure in compliance with the regulatory requirements. During the Reporting Period, efforts were made to issue more IBNCD. A total of 315 tranches of IBNCD were issued with an accumulative amount of RMB596,270 million, representing an increase of 74.18% as compared with the corresponding period of the previous year. As at the end of the Reporting Period, the balance of interbank liabilities amounted to RMB1,727,910 million (including IBNCD), representing a decrease of 2.22% as compared with the end of the previous year. Interbank assets amounted to RMB268,987 million, representing an increase of 10.37% as compared with the end of the previous year.

3. Custody business

In respect of asset custody business, the Company surmounted the adverse effects arising from intensified regulation, risk control and deleverage in the market. The integration of resources and a well-trained elite team enabled the Company to establish a comprehensive marketing system to launch targeted marketing including “one bank one policy (一行一策)” and “one customer one strategy (一户一策)”. The Company has established a customer cooperating platform and organised marketing activities to grasp the opportunity arising from the implementation of new regulations on assets management through extending the custody business such as active management securities investment funds, net worth bank wealth management and asset securitisation. Steady development of asset custody business was achieved. As at the end of the Reporting Period, the balance of the Company’s asset custody scale (including various types of fund management business) was RMB8,223,737 million. The total profit derived from custody business was RMB2,268 million.

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In respect of pension business, the Company paid close attention to the fragmentation of the pension system in China and actively grasped the market opportunities brought out by occupational annuity and the third pillar by restructuring its financial products and services to provide one-stop pension services to corporate and individual customers by way of pension custody and account management. As at the end of the Reporting Period, the balance of the pension under the custody of the Company (including corporate annuity and pension security business) was RMB182,811 million, and the number of corporate annuity accounts under the management of the Company was 175.5 thousand.

4. Wealth management business

During the Reporting Period, the wealth management market was complex. Deleverage was still in progress and the financing cost remained high. The fluctuation in the capital market was significant and a series of new regulations on entrusted loan, bank and trust cooperation and assets management were implemented. In the first half of the year, in face of the increasing credit risk and market risk and the shrinking profit margin, the Company proactively adapted to the new regulations of assets management and changed its offerings to net worth asset management products and completed the design of product portfolio in accordance with the new regulations. The Company strictly complied with major national strategies and significantly improved the products and services for the well-being of the public and supported the development of real economy with various instruments. The Group effectively controlled the risks to maintain the healthy development of assets management business. As at the end of the Reporting Period, the existing scale of wealth management products of the Company amounted to RMB1,385,081 million.

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 2,944.28 tons, and the trading volume of silver, including agency sales for legal persons and individuals, amounted to 8,400.59 tons. The total trading value amounted to RMB820,139 million. In terms of on-floor trading value, the Company was the third largest dealer at the Shanghai Gold Exchange, one of the most active proprietary dealers at the Shanghai Futures Exchange and one of the important domestic gold importers. The Company has obtained the qualification as market maker of the Shanghai Gold Exchange during the Reporting Period.

During the Reporting Period, the Company leased 44.23 tons of gold to corporate customers, and sold 539.87 kilograms of gold under private brand to retail customers. The Company effectively satisfied the needs of customers with diversified products. The outlook of further progress in the market was bright.

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During the Reporting Period, the transaction volume of domestic spot settlement of the Company amounted to USD275,091 million, representing a decrease of 4.84% 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 USD716,188 million, representing an increase of 111.02% as compared with the corresponding period of the previous year. The Company actively participated in the innovative product business of option and its portfolios. The transaction volume of RMB option amounted to USD64,815 million, representing an increase of 202.61% as compared with the corresponding period of the previous year.

(IV) Internet finance

During the Reporting Period, the Company seized the market opportunities by actively applying cutting-edge fintech based on the diversified needs of customers. By actively testing on the new financing model, the Company focused on the innovation of financial platforms, products and services such as direct banking, Internet finance for retail and corporate customers and online payment, 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 explored new models of open financial cloud platform and new direct banking products and services. The Company strove to maintain its market position as a leading bank of direct banking business. The Company further promoted the concept of "simple bank" and endeavoured to become a bank that is simple but great. The Company was the first in the industry to launch a brand new operation model, "4 Clouds + 1 Paradigm" 2.0, which is an integrated platform to include the wealth cloud, online lending cloud, payment cloud, data cloud and sharing self-service finance. It is a "self-service finance paradigm" ecosystem based on "digital account + N" standard model. With the application of fintech, risk control, credit investigation, operational capabilities, capabilities of payment, account and settlement and capital output, the Company effectively met the financial services needs of wealth, asset management, operations and marketing covering the entire industry chain. The Company was also the first to apply the distributed core systems, providing comprehensive services of deposit, loan and remittance. The Company maintained its leading position in the industry in terms of brand influence of direct banking. In the first half of 2018, the Company won the "Top Ten Financial Technology Innovation Award" from The Banker and Golden Cicada Award – "Direct Banking of the Year" from the China Times.

As at the end of the Reporting Period, the number of direct banking customers was 15,114.7 thousand and the financial assets managed by the Company amounted to RMB147,976 million. During the Reporting Period, the number of direct banking transactions was 63,124.0 thousand and the total transaction amount was RMB941,842 million.

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2. Retail Internet finance

During the Reporting Period, the Company adhered to the new concept of “from the heart to the smart future (從心出發、智享未來)” and fully utilised fintech to upgrade its Internet personal financial services. Through the introduction of a new version of mobile banking, self-service trading channels have migrated to digital mobile finance and a new living ecosystem was created. The new version of mobile banking is an integrated application to satisfy all customised needs of various customer groups such as small and micro enterprises, individuals, credit card and direct banking customers. The Company also launched Minsheng Pass (民生通行證) which is an electronic channel for customer identity authentication and data sharing. Customers can enjoy mobile banking, Internet banking and other multi-platform services with only one set of account and password. The Company also continued to apply new technology such as face recognition for bank transfer and standard security tools. As such, the customers’ transaction experience was further improved. The safety of mobile banking was further improved. During the Reporting Period, the Company launched information maintenance such as taxation for customers and non-resident financial accounts, as well as daily value-added wealth management, net worth close-end wealth management and innovative deposit products. The product process and user experience of personal Internet banking were improved significantly.

As at the end of the Reporting Period, the number of individual e-banking customers (including individual mobile banking customers and individual Internet banking customers) was 42,837.5 thousand, representing an increase of 4,425.6 thousand as compared with the end of the previous year. The number of transactions for the Reporting Period was 1,254 million and the transaction amount was RMB8.60 trillion. The number of customer transaction activities maintained among the top of the banking industry.

3. Corporate Internet finance

During the Reporting Period, the Company promoted the application and platform for corporate Internet finance. With focus on key industries, the Company expanded the scenario financial model based on the Internet, introduced featured services and built up an industry-leading corporate Internet financial brand image. The Company further differentiated its services based on classification of its customer groups. For large and core enterprises, the Company further optimised the integration of corporate Internet banking and direct banking services, focusing on traffic and data cooperation to expand the breadth and depth of services. For small and medium enterprises, the Company launched mobile micro-services to meet customers’ needs for fast and convenient financial services. The Company also cooperated with Internet platform operators to establish the Internet banking platform for enterprises and to create a new Fintech ecosystem.

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As at the end of the Reporting Period, the Company had signed contracts with 1,078.5 thousand corporate online banking customers. During the Reporting Period, the number of transactions was 55,322.1 thousand and the transaction amount was RMB29.07 trillion. The number of enterprise customers directly connected with bank was 1,410, and the average daily financial assets of such customers was RMB304,718 million.

4. Online payment

During the Reporting Period, focusing on the two core systems of “online payment and mobile payment”, the Company further diversified its products and improved the service standards, and built up the brand of “Minsheng Payment® (民生付®)”. The Company launched the pilot mobile easy pay project by upgrading the functions of mobile payment products, establishing convenient payment scenarios and promoting the development of inclusive finance. The Company also strengthened innovation of industry payment application and introduced industry solutions for class II/III customers. The Company introduced new fund collection and payment services to solve the problem of fund collection and payment under the specific scenario for the merchants. The Company improved the gateway payment and introduced the inter-bank gateway payment function. According to the regulatory requirement of settlement and clearance, the Company connected its system to the card-free fast payment platforms of online UnionPay and UnionPay to ensure the sustainability and compliance of its business.

As at the end of the Reporting Period, the number of customers using Kua Hang Tong (跨行通) of the Company totalled 3,822.1 thousand, and the total concentrated fund amounted to RMB164,012 million. During the Reporting Period, total amount of personal online payment transactions was RMB715,044 million. Total annual supervised transaction amount of private fund sales supervisory business amounted to RMB1.12 trillion. Currently, the Company has established supervision cooperation relationships with 102 public funds and 38 private funds in terms of sales.

(V) Overseas business

During the Reporting Period, the Hong Kong Branch actively followed the Company’s development strategy of “strengthening corporate banking, expanding retail banking and optimising financial markets business”, implemented reform and transformation as well as the three-year plan and continued to strengthen the three major businesses, namely the corporate banking business, financial markets business and private banking and wealth management business. Serving as an effective overseas business platform of the Company, the Hong Kong Branch maintained steady business growth with continuous improvement in efficiency.

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Capitalising on the cross-border synergy with the Head Office and seizing the strategic opportunities arising from the “Belt and Road Initiative” and “the development of the Guangdong-Hong Kong-Macau Bay Area”, the Hong Kong Branch focused on providing professional cross-border financial solutions for quality customers targeting to “Going Global” in compliance with the overseas investment policies of China. The Hong Kong Branch expanded its featured business and intensified cooperation with professional institutions. Cooperation projects with Xiaomi, Sougou, JD.com and Qutoutiao (趣頭條) and other enterprises with high influence in the industry were successfully launched, and featured businesses consisting of the privatisation of listed companies and cross-border merger and acquisition were strengthened. The Company also cooperated with professional brands in selected sectors such as healthcare, education and new economy. The Company strengthened its ability in initiating syndicate business and organised a number of syndicated loans with market recognition and significance to Belle International, China New Higher Education, Logan Property and others. The competitiveness and influence of the Company in the international market were further enhanced.

Capitalising on the strategic position of Hong Kong as an international financial centre, the Hong Kong Branch actively expanded its financial markets business. During the Reporting Period, the Hong Kong Branch actively developed bond investment and trading business and structured notes investment business. The investment of the accounts of the Bank maintained steady growth and the rate of return was further improved as well. The hedging of interest rate risk was effective. As at the end of the Reporting Period, the bond investment balance of Hong Kong Branch was HKD48,904 million. In respect of bond issuance, during the Reporting Period, the Hong Kong Branch successfully issued medium-term notes of USD1,000 million. On the other hand, the international ranking of the Hong Kong Branch’s underwriting scale of US dollar-denominated bonds issued by Chinese companies was further improved. The number of bond underwriting business significantly increased by 130% as compared with the corresponding period of the previous year, reflecting the Company’s brand influence and market position in the overseas bond markets.

During the Reporting Period, personal business of the Hong Kong Branch continued to increase rapidly. The personal wealth management business of the Hong Kong Branch was positioned as an Internet-based simplified bank through online banking and mobile banking. Engaging in cross-border wealth management business, the Hong Kong Branch targeted to acquire medium- and high-end customers and develop as an acquisition and operation platform of medium- and high-end customers of the Company in order to further enhance the cross-border integrated financial services of the Company. As at the end of the Reporting Period, the number of customers who had opened accounts for personal wealth management exceeded 30,000, including numerous quality employees of quality domestic groups listed overseas. The Hong Kong Branch also established cooperation with various traditional and Internet-based securities firms in Hong Kong

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to engage in bank transfer business. In respect of private banking business, the sales performance of “Minsheng Insurance (民生保)”, a high-end retail banking product series, was satisfactory. 83 transactions were made during the Reporting Period and the total insurance premium of effective policies amounted to HKD869 million, which had driven up the number of high-end private banking customers to 461, representing an increase of 19% as compared with the end of the previous year.

During the Reporting Period, net income of the Hong Kong Branch of the Company amounted to HKD1,545 million, representing an increase of 39.06% as compared with the corresponding period of the previous year. Of which, net interest income and net non-interest income amounted to HKD741 million and HKD804 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 125 cities in Mainland China, including 132 branch-level institutions (including 41 tier-one branches, 82 tier-two branches and 9 remote sub-branches), 1,148 business outlets of sub-branches (including business departments), 1,523 community sub-branches, 160 small business sub-branches and 4,178 self-service banks (including on-site and off-site self-service banks).

The Company put customers’ experience first and further improved its channel service model. It upgraded and promoted customer-friendly bank hall on the basis of the existing customised operation. The renovation of the hall of outlets was pushed forward to integrate consultation, sales and services for the provision of customer-friendly experience. As at the end of the Reporting Period, the Company had renovated the hall to create a customer-friendly atmosphere in 341 outlets, representing 29.73% of its outlets installed with 827 sets of remote service equipment.

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2. Self-service bank channels

The Company launched a new version of self-service banks and took full advantage of the self-service channels, operating cost efficiency was enhanced significantly. As at the end of the Reporting Period, the number of self-service banks decreased by 307 as compared with the end of the previous year to 4,178, and the number of self-service machines was 8,016.

3. Channel service

Based on customer experience, the Company conducted multi-channel service quality survey. The Company continuously optimised the standards and improved its customer service. During the Reporting Period, the Company conducted service quality survey on 1,127 sub-branch outlets, 678 community outlets and 106 off-site remote self-services outlets. The Company strove to maintain quality service and consistent experience for customers of all service channels.

During the Reporting Period, the Company adopted NPS (net promoter score) monitoring. Feedback from customers according to their real experience was highly regarded. The initial monitoring value was 69.44%. While continuously improving its service quality, the Company actively promoted the establishment of itself as one of “Top 1000 Advanced and Standardised Service Demonstration Units of China Banking Industry (中國銀行業文明規範服務千佳示範單位)” according to the standards adopted by China Banking Association to build up positive image in the market.

4. Operation management

The Company relied on its unique centralised operation system and strove to improve the professionalisation and concentration of its operational services for better customer service experience. In response to the call of the government to “develop inclusive finance and encourage financial innovation”, the Company continued to optimise its “cloud accounts” products and provide high-quality account opening service experience of “scan the code to open an account, one-stop delivery, cloud service” for small and micro enterprises. The Company also introduced new settlement service and launched mobile operation service to fully support the development of small and micro enterprises. The Company also continued to improve the remote marketing service to provide data-based and customised online wealth management and consulting services for customers of inclusive finance. It implemented active management and control measures on operational risk to proactively control overseas trading of accounts at risk. The Company promoted “account security lock” and continuously strengthened the protection of accounts and capital of its customers.

(VII) Major equity investments and management of consolidated financial statements

As at the end of the Reporting Period, the Company had investments in subsidiaries amounting to RMB5,385 million. For details, please refer to the notes to the 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.

During the Reporting Period, Minsheng Financial Leasing was devoted to strengthening its market competitiveness in four segments and enhancing its professional abilities and the synergy with the Head Office based on systemic and comprehensive reform, which proved to be very effective. As at the end of the Reporting Period, total assets of Minsheng Financial Leasing amounted to RMB175,462 million and the net assets amounted to RMB16,394 million.

Firstly, Minsheng Financial Leasing deepened its comprehensive reform to lay a foundation for high-quality development in the future. The systemic and comprehensive reform is aimed to secure high-quality development and with “integration of market, professionalisation of management, concentration of operation” as its objectives. Through restructuring of operation structure, establishing an integrated operation mechanism and improving management system concerning authorisation, risks, approval and operation, the market competitiveness of Minsheng Financial Leasing was enhanced.

Secondly, Minsheng Financial Leasing adjusted its structure and promoted strategic reform. The implementation of the strategy of “One Body and Two Wings (一體兩翼)” was at an advanced stage. The “One Body” refers to operational lease, while “Two Wings” refers to financial leasing and assets transaction business. The strategic reform was further promoted on the basis of “One Body and Two Wings” with operational lease and direct renting business as the main direction of business structure adjustment. The overall asset transaction ability was also improved.

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Thirdly, Minsheng Financial Leasing focused on its featured business and further enhanced its competitiveness in terms of professionalism. The aircraft segment further shifted to second-hand business jet trading market to meet diversified market demands and create value-added revenue. The ship segment innovated the business models of operational lease and sub-lease and further expanded its cooperation with international companies such as the world-renowned independent ship owner Navios. It has entered into the international mainstream market of container and other sub-sectors. The retail business of vehicle segment was stable and focused on the use of big data to adjust the business structure. In the first half of the year, the three strategic segments of aircraft, ships and vehicles had contributed for more than 70% of the profit. While exploring the market, Minsheng Financial Leasing also placed importance to the improvement of asset management.

Fourthly, Minsheng Financial Leasing enhanced the effectiveness of its risk control and strengthened the overall management to further improve its risk management. Close attention was paid to risky events so as to promptly and effectively monitor the assets. The coordination of upper and lower branches and overall risk management ability was also strengthened. The protective and preventive nature of risk management was highlighted.

Fifthly, Minsheng Financial Leasing coordinated with the cooperation among different business segments to generate complementary and synergy effects. “Cooperation with Head Offices” system was adopted as a bridge to strengthen the cooperation between the head offices, resulting in synergy effects in the marketing to strategic customers. Cross-selling was conducted in many ways. Risk alerts and credit limit approval were centrally managed by the headquarters based on a regular communication system.

The healthy and sustainable development of Minsheng Financial Leasing was highly recognised by the industry. It has won the award of First-class Financial Leasing Company of the Year for the third time in three consecutive years during the Reporting Period, reflecting that the industry status and brand image of Minsheng Financial Leasing were further consolidated and enhanced.

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. It mainly engages in fund raising, fund sales, asset management and other businesses approved by the CSRC.

As at the end of the Reporting Period, Minsheng Royal Fund had total assets of RMB1,882 million, net assets of RMB1,636 million and net profit of RMB137 million. A total of 47 public funds were managed under Minsheng Royal Fund, which covered various types with high, medium and low risks and cross-border products, and consisted of the most comprehensive wealth management, bond and fund product lines in the market. Total value of fund assets under its management was RMB137,394 million. Total value of non-monetary funds under its management was RMB81,372 million, ranking 22nd in the industry, up by 5 positions as compared with 2017. Number of products it managed for special accounts was 54, with a total scale of RMB43,096 million.

The investment performance of Minsheng Royal Fund was remarkable. According to the data of Galaxy Securities Fund Appraisal Centre (銀河證券基金評價中心), Minsheng Royal Fund ranked 4th out of 93 in terms of the active management capacity for equity investment (2nd in terms of fund companies with banking background). It also ranked 4th out of 97 in terms of the active management capacity for debts (1st in terms of fund companies with banking background). With its consistent outstanding performance, Minsheng Royal Fund was awarded 4 more Golden Bull awards, namely 2017 Fixed Income Golden Bull Fund Company, 2017 Most Trusted Golden Bull Fund Company, 2017 3-year Open Hybrid Continued Superior Golden Bull Fund and 2017 Most Popular Fund Manager. With outstanding mid- and long-term results, the Company won 13 Golden Bull awards (known as the Oscar award of the fund management industry) in five years, showing high recognition by the industry on the overall strengths of the Company.

Minsheng Royal Fund initiated and established Minsheng Royal Asset Management on 24 January 2013, and currently holds 51% equity interest of Minsheng Royal Asset Management. Minsheng Royal Asset Management's registered capital was RMB668 million and the scope of business included asset management business for specific customers and other businesses approved by the CSRC. As at the end of the Reporting Period, assets managed by Minsheng Royal Asset Management amounted to RMB138,714 million.

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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 globalised 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.

As at the end of the Reporting Period, CMBC International had total assets of RMB16,608 million and net profit of RMB135 million.

During the reporting period, CMBC International actively promoted the “One Body and Two Wings (一體兩翼)” strategy of promoting investment banking and asset management business with structured financing, and all businesses developed rapidly and steadily. It also established a sound and integrated structure comprising of both domestic and overseas systems to further explore and improve synergies between different businesses. During the Reporting Period, CMBC International was dedicated to enhancing its corporate governance, compliance management and 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.

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 86 business outlets. Total assets amounted to RMB33,299 million. The outstanding balance of loans amounted to RMB19,294 million, net asset amounted to RMB3,051 million, and balance of deposits amounted to RMB27,872 million.

During the Reporting Period, the Company adopted measures in compliance with the requirement of the Board to maintain “effective risk control, steady business development and organised internal management”. The Company supported Minsheng rural banks to develop localised services for the rural areas, agriculture and farmers, small business finance as well as residents in communities. The Company improved service quality and explored business model to facilitate sustainable development to transform the Minsheng rural banks as an important platform to perform the social responsibilities and expand the Company's brand and service coverage to counties and villages.

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The Company strictly complied with the requirements of regulatory policy, earnestly fulfilled the duties as the promotion bank and further optimised the management system and mechanism of Minsheng rural banks. The Company continued to improve the technology system of rural banks, strengthened group management and support to the rural banks to improve their corporate governance, risk management, compliance management and team building in order to ensure the healthy and sustainable development of Minsheng rural banks.

5. Structured entities consolidated to the financial statements of the Group

Structured entities consolidated to the financial statements of the Group include the issue, management and/or investment of certain asset management plans and fund products. The Group controls these entities because the Group has power over, is exposed to, or has rights to variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at the end of the Reporting Period, the total assets of these structured entities were RMB415 million. None of the structured entities has significant impact on the financial statements of the Group.

6. Management of consolidated financial statements

During the Reporting Period, according to regulatory requirements and with an aim of upgrading the management of the Group, the Company strengthened the management of its affiliated institutions. Operation of the Group remained stable.

The Company further strengthened the consolidated management and supervision by the Board and improved the management of the annual report and assessment. The Company continued to follow up and supervised the Board of Supervisors on the implementation of the special investigation and rectification measures and promoted the key tasks of consolidated management. The Company improved the information technology system of consolidated management and promoted the integrity and accuracy of the information filed to the regulatory authority. In addition, according to the management functions of different business lines, each of the departments under consolidated management further improved the operation efficiency through close management of the affiliated institutions to maximise the Group's benefits as "One Minsheng (一個民生)".

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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 establishing a comprehensive risk management system.

(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 to control risks and support the transformation of strategic business. 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 macroeconomic and financial situation.

During the Reporting Period, 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.

Firstly, the Company promoted structural adjustment with stricter policy guidance. The Company formulated and released the 2018 Risk Policy (《2018年度風險政策》), which covers all kinds of investment and financing businesses of the three business lines. Various benchmarks were added for portfolio management. It focused on the proportion of high-quality customers in the corporate banking business and small business finance and indicators such as pledge rate and concentration rate, and it set different management objectives and requirements as clear guidance and quantitative indicators. Secondly, the Company adopted a strategy to support NSOEs. It implemented the "Dingmin Project (鼎民計劃)" and offered company credit evaluation services based on the concept of customer first to actively promote the implementation of its private enterprise strategy. The Company also set up a special supply chain financial review team to conduct professional assessment approval of their local customers to promote the development of supply chain finance business. Thirdly, the implementation and application of the risk alert system was successful. The "Compass" early warning management system for operation risks based on big data technology was widely used in operating branches of the Company. The new model of early warning management system connecting the headquarters and branches was stable. In addition, a proactive

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retail banking monitoring and early warning management mechanism is established, resulting in a speedy and effective risk early warning management. Fourthly, the Company effectively controlled asset quality through implementation of the system of asset quality management, strengthened the connection between the Head Office and branches, and implemented the asset quality management liability system. The Company also carried out special activities and allocated additional resources for the collection and disposal of major troubled assets through various measures. The Company focused on significant problems and successfully achieved its asset quality control objectives in the first half of the year. Fifthly, the Company promoted the application and upgrade of risk management tools. Internal rating results have been widely applied in credit approval, risk authorisation, limit setting and risk report. In addition, internal rating results were applied in the provision for impairment loss of assets according to IFRS 9, the new accounting standard.

(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 price risk and commodity price risk in accordance with the regulatory requirements and the rules of the Basel accords. 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 increasingly volatile environment of banking industry.

During the Reporting Period, the Company continued its various market risk management work. Firstly, it further clarified the classification criteria and management requirements of accounting to improve the management system. Secondly, the Company refined the market risk limit requirements, strengthened risk transmission, and enhanced its market risk monitoring and control capabilities. Thirdly, the Company strengthened the coordination and management of market risks of trading accounts, bank accounts and off-balance sheet business as well as the coordination of management of market risk and related risks, such as liquidity risk, operational risk and credit risk.

(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 to cope with increase in assets or fulfill debt obligations at reasonable costs despite its solvent position.

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During the Reporting Period, the targets of the liquidity risk management of the Company were to improve the management and measurement of liquidity risk and to strengthen the abilities to identify, monitor and measure liquidity risk, so that liquidity risk tolerance could remain at a relatively stable level to ensure sufficient liquidity for the development of businesses and compliance of regulatory requirements. The objective of the Company was to ensure that sufficient assets of high liquidity was available to meet stress test for tolerable risk exposure and the financial resources were effectively used. The policies concerning liquidity risk management adopted by the Company included the following: Firstly, the Company improved the measurement and monitoring of liquidity risk; and refined the liquidity risk management system across the Company. Secondly, the Company monitored and managed interbank business as well as deposits and loans business in different approaches so as to be well-prepared for the risk hedging or risk combination resulting from the fluctuation in capital business and deposits and loans business. Thirdly, the Company strengthened its monitoring of changes in monetary policies and analysis of interest rate in the market and enhanced the stress testing on liquidity to modify its risk warning and contingency plan. Fourthly, the Company paid close attention to changes in policies and markets and evaluated liquidity risk regularly and made adjustment when necessary.

(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, the Company consolidated the base of operational risk management and implemented various operational risk management measures. Firstly, the Company enhanced the effectiveness of three major operational risk management tools, including internal review of operational risk and control of major business of the Company and management, reporting and regular monitoring of data on major risk indicators, and improvement of quality and efficiency of reporting on operational risk loss data. Secondly, the Company improved share and update of information among departments and the collection, tracking and reporting mechanism of major operational risk cases. Thirdly, the Company refined the outsourcing risk management through revision of management system, strengthened the approval procedure for new projects and the management of outsourcers and conducted inspection and assessment on management, with an aim to establish a leading system of outsourcing risk management so as to achieve management differentiation, assessment standardisation and refinement in result accuracy. Fourthly, the Company further improved its business continuity management level through optimisation system and formulation of annual emergency drill plan for important business, which prioritised the risk scenarios where the system is paralysed while recovery means are available. Fifthly, the Company continuously enhanced management effectiveness by optimising operational risk management system and its functions and refining operational mechanism.

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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 banking financial institutions, or banking financial institutions suffering from commercial losses in a country or region 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 formulated China Minsheng Bank Country Risk Management Measures (《中國民生銀行國別風險管理辦法》) and the 2018 Country Risk Rating and Limit Work Plan (《2018年國別風險評級與限額工作方案》), which marked the improvement of its management system and clarification of annual risk limit. Secondly, the Company strengthened the management of country risk reserves and made provision for country risk. Thirdly, the Company monitored country risk regularly and kept track changes of risks. Fourthly, the Company conducted special training on country risk management and reporting, and strengthened the construction of three lines of defence for country risk. Fifthly, the Company improved the country risk management information system in relation to cross-border business approval and lending process.

(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 the economic value and overall revenue 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 into gap 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 analysing the interest rate risk in banking books, such as re-pricing gap analysis, duration analysis, scenario analysis and stress testing. Secondly, based on analysis of factors giving rise to interest rate risk in banking books, the Company implemented relevant measures for management. Thirdly, pursuant to the implementation of the new regulations of regulatory authorities, 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. Reputation risk management of the Company is the daily proactively management of reputation risk and proper handling of incidents of reputation risk through establishing and formulating reputation risk management mechanisms and rules to eliminate the adverse impacts by various methods, so as to minimise the losses and negative public perception. These are the overall objectives of reputation risk management.

During the Reporting Period, the Company regarded reputation risk management as one of its major tasks for maintaining normal operation and promoting favourable public opinion. Firstly, the Company took the initiative to resolve key grievances and firmly established risk awareness as the entry point, improved the working system and consolidated the entire process management. Secondly, the Company combined risk investigation with public opinion monitoring to predict potential public opinion risks, deployed special monitoring, and formulated plans in advance. Thirdly, the Company promoted internal cooperation among different departments to eliminate potential risks, and optimised the risk control process in daily management. Fourthly, the Company actively publicised its contributions and achievements in reform and innovation, business development, special business and the fulfilment of social responsibility to highlight the measures and effectiveness of the Company in its implementation of the major policies, support for the real economy and prevention of financial risks.

(VIII) Information technology risk

Information technology risk is the operational, legal and reputational risk due to natural factors, human factors, technical flaws and management defects in relation to the application of information technology in a commercial bank.

During the Reporting Period, the Company implemented information technology risk management in all areas, including information technology governance, information system development and maintenance, information safety, business continuity, outsourcing and audit, and continued to improve the information technology risk management. Firstly, the Company intensified the medium- to long-term information technology plan to optimise technology governance, and to ensure the implementation of information technology reform measures on the core businesses with application of innovative technologies. Secondly, the Company enhanced data management and research on data model, accelerated the application of data for establishing big data platform,

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improved data service and established an intelligent decision making and risk control system. Thirdly, the Company improved the management of the production system maintenance service, and optimised the procedure of management and supervision and platform establishment. The Company also improved the capacity of cloud service, promoted the development of integrated maintenance and strengthened the ability of supervision and emergency treatment for production system. Fourthly, the Company continued to establish a comprehensive information safety management and defence system, promoted the compliance of information safety and enhanced the management and control over Internet and development safety and protection of internal information safety. Fifthly, to improve the risk management of information technology through comprehensive information technology risk monitoring, implementation of special risk assessment and inspection as well as enhancement of the abilities of risk identification and prevention.

(IX) Internal Control and Anti-Money Laundering

The Company continued to strengthen its inspection on compliance and internal control as well as problem rectification with emphasis on risk prevention and control in key areas. Firstly, the Company formulated an internal control compliance inspection plan for 2018, and a general inspection plan covering major businesses and management issues. Secondly, the Company organised the rectification of the irregularities in the banking market. In the first half of the year, the Company completed the evaluation of six special rectification operations in 2017, which covered “three violations, three arbitrages, four improperness, ten chaos (三三四十)”, “Board of Directors; Board of Supervisors; Senior Management (兩會一層)” and credit risk investigation. The Company also completed part of the work of deepening the rectification of market irregularities in 2018. Thirdly, the Company conducted flight inspections of the business outlets within the jurisdiction of certain branches. Fourth, the Company carried out rectification and punishment for problems found in internal and external inspections, and improved the level of compliance management.

The Company implemented the regulatory requirements under the “three-anti mechanism”, namely anti-money laundering, anti-terrorist financing and anti-tax evasion, and further improved the anti-money laundering internal control management mechanism, increased the rewards for intelligence of anti-money laundering and the effectiveness of anti-money laundering work. In a word, the Company strove to create an anti-money laundering system that is better in line with regulatory requirements and more distinctive and effective.

During the Reporting Period, the Company launched a series of anti-money laundering and compliance measures. First, the Company completed the annual anti-money laundering reports and legal person classification and rating, and implemented improvements according to the regulatory evaluation opinions. Second, the Company successfully completed the comprehensive improvement work and strengthened the effectiveness of anti-money laundering management. Third, the Company further improved the anti-money laundering system, and implemented an independent

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assessment of money laundering risks. Fourth, the Company carried out due diligence investigation on beneficiaries of benefits for non-natural person customers and strengthened the transparency management of legal persons. Fifth, the Company promoted the development of functions for anti-money laundering on-site inspection data specification interface, actively participated in the FATF mutual assessment response, and fully fulfilled the regulatory coordination obligations. Sixth, the Company continued to carry out risk assessment, prevention and control, and strictly implemented risk investigation to and cooperated in major case investigations, resulting in enhancement of risk early warning and elimination. Seventh, the Company has determined that reports of suspicious transactions shall be reviewed by the Head Office, thus effectively improved the quality of reports of suspicious transactions. Eighth, the Company optimised and improved the function of anti-money laundering system which can monitor transaction of a particular customer. Inspection based on lists and systemic management on one-time financial business were both improved.

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

XI. Prospects and Measures

(I) Competition and development of the banking industry

Currently, global economic recovery resonance has entered plateau, and the uncertainty faced by the global economy will continue to increase in the second half of the year. With the gradual normalisation of monetary policy in developed economies, emerging markets are faced with greater pressure in capital outflows, and the recovery process of different economies may continue to differentiate. Geopolitical instability, trade protectionism and unilateralism will further threaten the world economy, and the rising trade friction may become the biggest risk affecting the global economy and financial markets.

As for the domestic economy, there will be certain downward pressure on China's economy in the second half of 2018, but it is still expected to maintain a growth rate of around 6.5%. Real estate investment growth is expected to decline slightly due to the increasingly stringent regulation. Infrastructure investment is expected to bottom out, and manufacturing investment and service industry investment are expected to remain stable. Automobile and real estate related consumption will slow down, while basic living consumption will maintain stable. Consumption in respect of service industry such as culture, entertainment and education will maintain steady growth. Exports are expected to be dragged down by China-United States trade frictions and by the slowdown in global economic growth. Imports will be supported by tariff reductions and the policy of expansion of domestic demand. Influenced by the external environment, the banking industry will face new opportunities and challenges in the second half of 2018.

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In respect of opportunities, firstly, the restructuring of the national economy will generate greater demands. While the background of China's economy is moving towards high-quality development model, traditional industries are accelerating their transformation and upgrading to emerging industries, and the economic structure has continued to improve and optimise, resulting in the emergence of new industries, technologies, business trends and operational models. Demands for customised financial products become stronger, and innovative financial services, such as technological finance, supply-chain finance, and industry funds, 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 finance, financing for carbon-emission rights, green credit and asset securitisation. Secondly, there will be numerous opportunities in the consumer finance market as new consumption highlights emerge. Currently, with consumption upgrade supported by policies, changes 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. Happiness industries, including culture, tourism, healthcare, pension, physical education and education and training will become new consumption highlights, which will certainly create demand for consumption credit and other comprehensive financial services. Thirdly, the continuing strategic development plan of China and the regional synergy 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 supervision 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 Connect (債券通), investment-loan linkage and debt-to-equity conversion, facilitating the business expansion and non-interest income growth of commercial banks.

In respect of challenges, the traditional business development and growth model of the banking industry is faced with challenges as the economic growth slows down, the industrial structure transforms, and the external environment changes such as interest rate liberalisation, financial disintermediation, fintech, stringent regulation and the continuity of two-way openness. The problem of weak growth of deposits is still outstanding for the current banking industry. The difficulty of liquidity management is increasing, and the asset-liability structure is faced with further pressure from adjustment. Under the overall arrangement of prevention of systemic financial risks, the complexity of the business operation is increasing and the shadow banking system is superimposed with financing shrinks. Some entities face greater liquidity risk and credit risk, and the quality of banking assets may be under pressure again.

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 Overall Implementation Scheme for Reform and Transformation and the Three-year Development Plan of China Minsheng Bank (《中國民生銀行改革轉型暨三年發展規劃整體實施方案》) in order to accelerate its reform and transformation. In the coming three years, the Company will commit to becoming a benchmark bank with distinctive features, increased value and continuous innovation. The Company will also strategically position itself as a bank for the NSOEs, a fintech-based bank and a bank of comprehensive services.

A bank for the NSOEs. With its focus on the NSOEs and the people, the Company will focus on large and medium NSOEs with high quality, upstream and downstream of the supply chain for core enterprises and small and micro enterprises, and serve as a financial butler of NSOE customers and their senior management with integrated, customised and comprehensive financial services. It will strive to become the host bank and preferred bank of the NSOE customers.

A fintech-based bank. The Company will vigorously develop direct banking, small business online credit, credit card online customer acquisition to strengthen technology finance and secure its leading position in the industry. It will also set up technology companies to enhance its scientific and technological capacity so that technology can empower business. The Company will improve its intelligent level in finance service to build China's Internet banking with the best customer experience.

A bank of comprehensive services. The Company will expedite its business layout diversification to cover fields including trust, lease, fund and asset management and achieve comprehensive services. The Company also aims to establish a cross-selling and business synergy system under "One Minsheng" to provide its customers with comprehensive financial services with the integration of commercial, investment and transaction banking and the combination of capital, intelligence and commerce. The Company will prioritise its customers and provide integrated and comprehensive services through the cooperation of front, middle and back offices.

In the implementation of the new three-year plan and the promotion of reform and transformation, the Company will deploy its three major innovative businesses, three principal businesses and five major business segments based on the core principles of high quality development and efficiency. Its deployment includes strengthening three primary businesses, namely direct banking, small business finance and investment banking; consolidating three leading businesses, namely credit card, supply chain finance and asset management; and enhancing five major business segments, namely corporate finance, retail finance, financial markets, Internet finance and comprehensive operation. On the basis of the above deployment, the Company will

Discussion and Analysis on Business Operation

transform itself into a benchmark bank of the industry principally engaging in digitalised, light-capital and comprehensive business in addition to the traditional business. In addition, greater reform and innovation efforts will be made. With innovative mechanisms and systems of its major management aspects, the Company will be able to revitalise its structure. It will also establish a customer-oriented operation and management system and extensively enhance its professional management to facilitate and support the implementation of its business development strategies.

Looking forward, the Company will seize the opportunities and confront the challenges arising from the ever-changing operation environment in its pursuit of serving the real economy, preventing and defusing financial risks and deepening the three major tasks of financial reform. The Company will insist on sound operation, promote reform and transformation, accelerate structural adjustment, develop new sources of profit growth, strengthen its risk prevention and control abilities and consolidate its management foundation to achieve sustainable and stable development.

(III) Potential risks

Due to factors such as China-United States trader war, the state macro-control and the deleveraging of the financial industry, the pressure on economic growth increases. The downward trend of macro-economy will affect the asset quality of banks and further increase provision pressures. The volatility of domestic stock markets and bond markets, the highly tight capital chain of certain enterprises, the more obvious risks related to Internet finance and the increasingly stringent regulatory environment calls for higher requirements for the comprehensive risk management capability of the banks because of the resulting challenges for both the operation profitability and asset quality.

Facing the in-depth transformation of the financial environment, the Company will continue to promote its reform and transformation as well as improve its comprehensive risk management. It will also optimise asset structure and strictly safeguard asset quality with joint efforts throughout the Bank, and seize market opportunities in the future to ensure healthy and orderly development of the businesses of the Bank.

Changes in Share Capital and Information on Shareholders

I. Changes in Ordinary Shares

(Unit: Share)

	31 December 2017		Changes over the Reporting Period (+,-)	30 June 2018	
	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

Note: The proposed plan of capital reserve capitalisation for 2017 of the Company was considered and passed at the 2017 annual general meeting and was completed in July 2018. The Company capitalised the capital reserve from the issue of shares at premium by issuing shares to holders of A shares and holders of H shares whose names appear on the registers as at the record dates in a proportion of 2 shares for every 10 shares being held. Based on the number of shares of the Company in issue, being 36,485,348,752 shares, as at 31 December 2017, the total number of shares issued by capitalisation of the capital reserve was 7,297,069,750 shares. Upon the completion of the capital reserve capitalisation, the total number of share capital of the Company was 43,782,418,502 shares, including 35,462,123,213 ordinary shares in RMB (A shares) and 8,320,295,289 overseas listed foreign invested shares (H shares).

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								394,531
Particulars of shareholdings of the top ten ordinary 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	18.92	6,901,821,506	2,208,336	—	Unknown	—	
Anbang Life Insurance Inc. — Steady Investment Portfolio	State-owned legal person	6.49	2,369,416,768	—	—	Nil	—	
China Securities Finance Corporation Limited	State-owned legal person	4.90	1,787,745,079	53,093,243	—	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	State-owned legal person	4.56	1,665,225,632	—	—	Nil	—	
Anbang Insurance Group Co., Ltd. — Traditional Insurance Products	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	—	—	Nil	—	
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	3.15	1,149,732,989	—	—	Pledged	1,149,732,000	
Huaxia Life Insurance Co., Ltd. — Universal Insurance Product	Domestic non-state-owned legal person	3.14	1,146,469,451	—	—	Nil	—	
China Shipowners Mutual Assurance Association	Domestic non-state-owned legal person	2.98	1,086,917,406	—	—	Nil	—	

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	6,901,821,506	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	1,787,745,079	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
Huaxia Life Insurance Co., Ltd. — Universal Insurance Product	1,146,469,451	Ordinary shares denominated in RMB
China Shipowners Mutual Assurance Association	1,086,917,406	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 2018.

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 2018, 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	Number 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 15	5.50	1.05
Orient Group Incorporation	A	Long	Party to the acting in concert agreement	2,540,601,632	3	8.60	6.96
Huaxia Life Insurance Co., Ltd.	A	Long	Party to the acting in concert agreement	2,540,601,632	3	8.60	6.96
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	Number 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
Oceanwide International Equity Investment Limited	H	Long	Beneficial owner	503,584,125			
		Long	Interest held by the corporation(s) controlled by this substantial shareholder	340,000,000			
				843,584,125	10	12.17	2.31
Shi Jing	H	Long	Person who set up a discretionary trust	665,020,111	11 and 12	9.59	1.82
Abhaya Limited	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	665,020,111	11 and 12	9.59	1.82
Wickhams Cay Trust Company Limited	H	Long	Trustee	665,020,111	11 and 12	9.59	1.82
Divine Celestial Limited	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	594,584,711	11	8.58	1.63
JH International Investment Company Limited	H	Long	Beneficial owner	594,584,711	11	8.58	1.63

Changes in Share Capital and Information on Shareholders

Name of substantial shareholder	Class of shares	Long/short position	Capacity	Number of shares	Notes	Percentage of the relevant shares in issue (%)	Percentage of all the issued ordinary shares (%)
Guotai Junan International Holdings Limited	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	586,993,500	13 and 14	8.47	1.61
		Short	Interest held by the corporation(s) controlled by this substantial shareholder	586,993,211	13 and 14	8.47	1.61
Guotai Junan Securities Co., Ltd.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	586,993,500	13 and 14	8.47	1.61
		Short	Interest held by the corporation(s) controlled by this substantial shareholder	586,993,211	13 and 14	8.47	1.61
Shanghai International Group Co., Ltd.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	586,993,500	13 and 14	8.47	1.61
		Short	Interest held by the corporation(s) controlled by this substantial shareholder	586,993,211	13 and 14	8.47	1.61
Anbang Property Insurance Inc.	H	Long	Interest held by the corporation(s) controlled by this substantial shareholder	381,608,500*	2 and 15	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 2018. 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. and Anbang Property Insurance Inc.
- 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 1,473,837,363 A shares of the Company) held in the 2,540,601,632 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.

Changes in Share Capital and Information on Shareholders

4. 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").

5. 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.
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. 23.71% and 29.08% 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 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 843,584,125 H shares (Long position) comprised 503,584,125 H shares directly held by Oceanwide International Equity Investment Limited and 340,000,000 H shares directly held by Long Prosper Capital Company Limited. Long Prosper Capital Company Limited was a wholly-owned subsidiary of Oceanwide International Equity Investment Limited. 98.86% of the issued share capital of Oceanwide International Equity Investment Limited was indirectly held by Oceanwide Holdings Co., Ltd. 67.15% 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.

11. The 665,020,111 H shares (in which 586,003,211 H shares were held through unlisted derivatives (convertible instruments)) comprising 70,435,400 H shares directly held by Liberal Rise 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 Divine Celestial Limited. Divine Celestial Limited and Liberal Rise 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, Divine Celestial 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 70,435,400 H shares held by Liberal Rise Limited and 594,584,711 H shares held by JH International Investment Company Limited.

12. 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.

Changes in Share Capital and Information on Shareholders

13. The 586,993,500 H shares (Long position) and the 586,993,211 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 64.66% of interests were indirectly held by Guotai Junan Securities Co., Ltd. 30.93% 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 586,993,500 H shares (Long position) and 586,993,211 H shares (Short position) held by Guotai Junan Financial Products Limited.

Besides, 586,993,500 H shares (Long position) and 586,993,211 H shares (Short position) were held through unlisted derivatives as follows:

480,041,500 H shares (Long position)	— through physically settled derivatives
106,952,000 H shares (Long position) and 586,993,211 H shares (Short position)	— through cash settled derivatives

14. The interests that Guotai Junan International Holdings Limited, Guotai Junan Securities Co., Ltd. and Shanghai International Group Co., Ltd. held in the 586,993,500 H shares (Long position) and 586,993,211 H shares (Short position), as set out in the above table, were from the same block of shares.
15. 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 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 2018 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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.

Changes in Share Capital and Information on Shareholders

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 website of the SSE, the HKEXnews website of the SEHK and the website of the Company.

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

As at the end of the Reporting Period, the number of holder of offshore preference shares was one. As at the end of the month prior to the disclosure date of this Interim Report (i.e. 31 July 2018), the number of holder of offshore preference shares was one.

The top ten holder(s) of preference shares (or nominees) of the Company are set out as follows (the following data was based on the registered holder of the preference shares as at 30 June 2018):

(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 on sales 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.

Changes in Share Capital and Information on Shareholders

(III) Changes in offshore preference shares

(Unit: Share)

Class of offshore preference shares	Offshore preference shares issued as of 31 December 2017	Changes over the Reporting Period	Offshore preference shares issued as of 30 June 2018
USD preference shares	71,950,000	—	71,950,000

(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 including 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》), 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.

The capital reserve for 2017 of the Company was capitalised by issuing shares to holders of A shares and holders of H shares on 6 July 2018 and 27 July 2018, respectively. The conversion price of offshore preference shares was adjusted from HKD7.56 per H share to HKD6.30 per H share in accordance with the relevant requirements of the compulsory conversion clause of the offshore preference shares with effect from 27 July 2018. In addition, based on the adjustment formula of the conversion price of domestic preference shares, the conversion price of the proposed domestic preference shares of the Company will be adjusted from RMB8.79 per A share to RMB7.33 per A share. For details of the adjustment on the conversion prices of offshore preference shares and domestic preference shares, please refer to the announcement of the Company dated 27 July 2018 published on the website of the SSE, the HKEXnews website of the SEHK and the website of the Company.

Changes in Share Capital and Information on Shareholders

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

During the Reporting Period, no financial bond was issued by the Company.

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 41.44% 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.

VII. Substantial Shareholders

(I) Substantial shareholders with aggregate shareholding of 5% or more in the Company as at the end of the Reporting Period were as follows:

1. Anbang Property Insurance Inc.: It was incorporated on 31 December 2011; its registered capital is RMB37,000 million; its uniform social credit code is 91440300599638085R; its legal representative is Ye Jing; its controlling shareholder is Anbang Insurance Group Co., Ltd.; its ultimate controller is Anbang Insurance Group Co., Ltd.; its ultimate beneficiary is Anbang Insurance Group Co., Ltd.; its parties acting in concert are Anbang Insurance Group Co., Ltd., Anbang Life Insurance Inc. and Hexie Health Insurance Co., Ltd.; its principal business includes: property and casualty insurance, liability insurance, credit and guarantee insurance, short-term health insurance and accidental injury insurance, reinsurance in connection with the above insurance businesses, insurance fund application business permitted under the PRC laws and regulations and other businesses approved by the CIRC. As at the end of the Reporting Period, the shares of the Company held by Anbang Property Insurance Inc. had not been pledged.

Anbang Life Insurance Inc.: It was incorporated on 23 June 2010; its registered capital is RMB30,790 million; its uniform social credit code is 91110000556828452N; its legal representative is Yao Dafeng; its controlling shareholder is Anbang Insurance Group Co., Ltd.; its ultimate controller is Anbang Insurance Group Co., Ltd.; its ultimate beneficiary is Anbang Insurance Group Co., Ltd.; its parties acting in concert are Anbang Insurance Group Co., Ltd., Anbang Property Insurance Inc. and Hexie Health Insurance Co., Ltd.; its principal business includes: various life insurance businesses such as life insurance, health insurance and accidental injury insurance, reinsurance business of the above insurance businesses, insurance

Changes in Share Capital and Information on Shareholders

fund application business permitted under the PRC laws and regulations, and other businesses approved by the CIRC. As at the end of the Reporting Period, the shares of the Company held by Anbang Life Insurance Inc. had not been pledged.

Hexie Health Insurance Co., Ltd.: It was incorporated on 12 January 2006; its registered capital is RMB13.9 billion; its uniform social credit code is 915101007847688429; its legal representative is Gu Hongmei; its controlling shareholder is Anbang Insurance Group Co., Ltd.; its ultimate controller is Anbang Insurance Group Co., Ltd.; its ultimate beneficiary is Anbang Insurance Group Co., Ltd.; its parties acting in concert are Anbang Insurance Group Co., Ltd., Anbang Property Insurance Inc. and Anbang Life Insurance Inc.; its principal business includes: various Renminbi and foreign currencies-denominated health insurance businesses, accidental injury insurance businesses, health insurance business ancillary to the national health care policies and entrusted by the governments, health insurance related consulting service and agency businesses, health insurance related reinsurance businesses, funds application businesses permitted under the PRC laws and regulations, and other businesses approved by the CIRC. As at the end of the Reporting Period, the shares of the Company held by Hexie Health Insurance Co., Ltd. had not been pledged.

Anbang Insurance Group Co., Ltd. is the controlling shareholder of Anbang Life Insurance Inc., Anbang Property Insurance Inc. and Hexie Health Insurance Co., Ltd. and owns 99.98%, 97.56% and 98.04% of the shares of Anbang Life Insurance Inc., Anbang Property Insurance Inc. and Hexie Health Insurance Co., Ltd., respectively. As at the end of the Reporting Period, the shares of the Company held by Anbang Insurance Group Co., Ltd. had not been pledged. The shareholder qualifications of Anbang Property Insurance Inc., Anbang Life Insurance Inc., Anbang Insurance Group Co., Ltd. and Hexie Health Insurance Co., Ltd. are subject to the approval by the CBIRC. On 23 February 2018, the Company noticed that CIRC published the CIRC Notice Concerning the Takeover of Anbang Insurance Group Co., Ltd. in Accordance with Laws (《中國保監會關於對安邦保險集團股份有限公司依法實施接管的公告》) on its official website. Meanwhile, the Company received a written notification from its shareholder Anbang Insurance Group Co., Ltd. that: “The current operation of Anbang Insurance Group Co., Ltd. and its subordinate bodies are generally stable with sufficient cash reserves. We have no intention to reduce our shareholdings in Minsheng Bank in the near future.”

On 29 June 2018, Hexie Health Insurance Co., Ltd. and Anbang Life Insurance Inc. entered into the Agreement in Relation to Transfer of Shares in China Minsheng Banking Corp., Ltd. between Hexie Health Insurance Co., Ltd. and Anbang Life Insurance Inc. (《和諧健康保險股份有限公司與安邦人壽保險股份有限公司關於中國民生銀行股份有限公司股份轉讓協議》), pursuant to which Hexie Health Insurance Co., Ltd. transferred its A shares in the Company to Anbang Life Insurance Inc. The transfer of shares has been registered with the Shanghai

Changes in Share Capital and Information on Shareholders

branch of China Securities Depository and Clearing Company Limited on 3 September 2018. Upon the completion of the share transfer, Hexie Health Insurance Co., Ltd. no longer held any shares of the Company. The aggregate percentage and number of shares in the Company held by Anbang Insurance Group Co., Ltd. and its parties acting in concert remained unchanged, representing 17.84% of the total share capital of the Company. Please refer to relevant announcements of the Company dated 3 July 2018, 28 August 2018 and 5 September 2018 for details.

2. Orient Group Incorporation: It was incorporated on 16 August 1989; its registered capital is RMB3,714,576,124; its uniform social credit code is 91230199126965908A; its legal representative is Sun Mingtao; its controlling shareholder is Orient Group Co., Ltd. (formerly known as Orient Group Investment Holding Co., Ltd.); its ultimate controller is Zhang Hongwei; its ultimate beneficiary is Zhang Hongwei; its party acting in concert is Huaxia Life Insurance Co., Ltd.; its principal business includes: investments in modern agriculture, new urbanisation and development, financial industry, ports and transportation industry. As at the end of the Reporting Period, Orient Group Incorporation pledged 1,066,756,240 ordinary shares of the Company, representing 2.92% of the total share capital of the Company.

Huaxia Life Insurance Co., Ltd.: It was incorporated on 30 December 2006; its registered capital is RMB15.3 billion; its uniform social credit code is 91120118791698440W; its legal representative is Li Fei; it does not have any controlling shareholder, ultimate controller or ultimate beneficiary; its party acting in concert is Orient Group Incorporation; its principal business includes: various life insurance businesses such as life insurance, health insurance and accidental injury insurance businesses, related reinsurance businesses of the above insurances, funds application businesses permitted under the PRC laws and regulations, and other businesses approved by the CIRC. As at the end of the Reporting Period, the shares of the Company held by Huaxia Life Insurance Co., Ltd. had not been pledged.

3. China Oceanwide Holdings Group Co., Ltd.: It was incorporated on 7 April 1988; its registered capital is RMB20,000 million; its uniform social credit code is 911100001017122936; its legal representative is Lu Zhiqiang; its controlling shareholder is Oceanwide Group Co., Ltd.; its ultimate controller is Lu Zhiqiang; its ultimate beneficiaries are Lu Zhiqiang, Huang Qiongzi and Lu Xiaoyun; its parties acting in concert are China Oceanwide International Investment Company Limited, Oceanwide International Equity Investment Limited and Long Prosper Capital Company Limited; its principal business includes: finance, real estate and investment management.

Changes in Share Capital and Information on Shareholders

China Oceanwide International Investment Company Limited: It was incorporated on 15 October 2008; its registered capital is HKD1,548,058,790; its controlling shareholder is China Oceanwide Holdings Group Co., Ltd.; its ultimate controller is Lu Zhiqiang; its ultimate beneficiaries are Lu Zhiqiang, Huang Qiongzi and Lu Xiaoyun; its parties acting in concert are China Oceanwide Holdings Group Co., Ltd., Oceanwide International Equity Investment Limited and Long Prosper Capital Company Limited; its principal business includes: investment holding.

Oceanwide International Equity Investment Limited: It was incorporated on 17 March 2016; its registered capital is USD50,000; its controlling shareholder is Wuhan CBD (Hong Kong) Company Limited; its ultimate controller is Lu Zhiqiang; its ultimate beneficiaries are Lu Zhiqiang, Huang Qiongzi and Lu Xiaoyun; its parties acting in concert are China Oceanwide Holdings Group Co., Ltd., China Oceanwide International Investment Company Limited and Long Prosper Capital Company Limited; its principal business includes: investment holding.

Long Prosper Capital Company Limited: It was incorporated on 31 August 2016; its registered capital is USD50,000; its controlling shareholder is Oceanwide International Equity Investment Limited; its ultimate controller is Lu Zhiqiang; its ultimate beneficiaries are Lu Zhiqiang, Huang Qiongzi and Lu Xiaoyun; its parties acting in concert are China Oceanwide Holdings Group Co., Ltd., China Oceanwide International Investment Company Limited and Oceanwide International Equity Investment Limited; its principal business includes: investment holding.

As at the end of the Reporting Period, China Oceanwide Holdings Group Co., Ltd., Oceanwide International Equity Investment Limited and Long Prosper Capital Company Limited pledged a total of 2,523,236,307 ordinary shares of the Company, representing 6.91% of the total share capital of the Company.

(II) In Accordance with the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) under the order of the CBRC (No. 1 of 2018), other substantial shareholders of the Company were as follows:

1. New Hope Liuhe Investment Co., Ltd.: It was incorporated on 25 November 2002; its registered capital is RMB576,555,600; its uniform social credit code is 91540091744936899C; its legal representative is Wang Pusong; its controlling shareholder is New Hope Liuhe Co., Ltd.; its ultimate controller is Liu Yonghao; its ultimate beneficiary is Liu Yonghao; its party acting in concert is South Hope Industrial Co., Ltd.; its principal business includes: venture capital, investment management and wealth management investment. As at the end of the Reporting Period, the shares of the Company held by New Hope Liuhe Investment Co., Ltd. had not been pledged.

Changes in Share Capital and Information on Shareholders

South Hope Industrial Co., Ltd.: It was incorporated on 17 November 2011; its registered capital is RMB884,313,725; its uniform social credit code is 9154009158575152X0; its legal representative is Li Jianxiong; its controlling shareholder is New Hope Group Co., Ltd.; its ultimate controller is Liu Yonghao; its ultimate beneficiary is Liu Yonghao; its party acting in concert is New Hope Liuhe Investment Co., Ltd.; its principal business includes: research and development, wholesale and retail of feeds, electronic products, hardware and electrical appliances, daily sundry goods, textiles, office equipment (excluding colour copier), building materials (excluding hazardous chemicals and wood materials), agricultural by-products and special products (excluding products specified by the State), chemical products (excluding hazardous chemicals), mechanical equipment, investment and consultancy services (excluding intermediary services). As at the end of the Reporting Period, the shares of the Company held by South Hope Industrial Co., Ltd. had not been pledged.

2. Shanghai Giant Lifetech Co., Ltd.: It was incorporated on 12 July 1999; its registered capital is RMB245,400,640; its uniform social credit code is 913101041346255243; its legal representative is Wei Wei; its controlling shareholder is Giant Investment Co., Ltd.; its ultimate controller is Shi Yuzhu; its ultimate beneficiary is Shi Yuzhu; it has no party acting in concert; its principal business includes: manufacturing and sales of food (through its subsidiaries), sales of cosmetics, cleaning products, healthcare equipment and kitchenware, technical development, consultancy, services and transfer in healthcare food aspect, back-to-back wholesale of prepackaged food (excluding cooked or braised and refrigerated or frozen food), investment management, asset management, investment consultancy, business information consultancy and business management consultancy. As at the end of the Reporting Period, Shanghai Giant Lifetech Co., Ltd. pledged 1,149,732,000 ordinary shares of the Company, representing 3.15% of the total share capital of the Company.
3. China Shipowners Mutual Assurance Association: It was incorporated on 1 January 1984; its registered capital is RMB100,000; its uniform social credit code is 51100000500010993L; its legal representative is Song Chunfeng; it has no controlling shareholder; it has no ultimate controller; it has no ultimate beneficiary; it has no party acting in concert; its principal business includes: marine mutual assurance, business training, marine information exchange, international cooperation and consultancy service. As at the end of the Reporting Period, the shares of the Company held by China Shipowners Mutual Assurance Association had not been pledged.

Changes in Share Capital and Information on Shareholders

4. Good First Group Co., Ltd.: It was incorporated on 2 May 1995; its registered capital is RMB133 million; its uniform social credit code is 91310000612260305J; its legal representative is Wu Di; its controlling shareholder is Huang Xi; its ultimate controller is Huang Xi; its ultimate beneficiary is Huang Xi; it has no party acting in concert; its principal business includes: research, development and sale of high-tech products; industrial investment; investments in the education, agriculture, secondary industry and entertainment industry and healthcare products; sale of photographic equipment and new construction materials; wholesale and retail of chemicals (excluding hazardous chemicals and chemicals subject to supervision and control), textiles, hardware and electrical appliances, commodities, metal materials, construction materials, automobiles (excluding passenger cars) and parts, general machinery, electronic products and telecommunication devices and mineral products as approved by the country. As at the end of the Reporting Period, Good First Group Co., Ltd. pledged 556,140,000 ordinary shares of the Company, representing 1.52% of the total share capital of the Company.

5. Tongfang Guoxin Investment Co., Ltd.: It was incorporated on 23 May 2007; its registered capital is RMB2,574,162,500; its uniform social credit code is 91500000660887401L; its legal representative is Liu Qinqin; it has no controlling shareholder; it has no ultimate controller; its ultimate beneficiary is Tongfang Guoxin Investment Co., Ltd.; its parties acting in concert are Chongqing International Trust Company Limited and Chongqing Guotou Equity Investment Management Co. Ltd. (重慶國投股權投資管理有限公司); its principal business includes: making investments with its own fund (accepting public deposits or accepting public deposits in any disguised form, granting loans and conducting securities, futures and other financial business are not allowed); providing its associated companies with consultancy services, including market information, in respect of markets in which they invested; providing planning and consultancy services in relation to corporate reorganisation, merger and acquisition; and providing corporate management services. (Businesses that require pre-approvals according to laws shall only be conducted after obtaining approvals from the relevant authorities.) As at the end of the Reporting Period, Tongfang Guoxin Investment Co., Ltd. pledged 535,000,000 ordinary shares of the Company, representing 1.47% of the total share capital of the Company.

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	Chairman & Executive Director	28 August 2014–present	0	0
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	Executive Director & President	1 February 2016–present	0	0
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
SONG Chunfeng	M	1969	Non-executive Director	20 February 2017–present	0	0
WENG Zhenjie	M	1962	Non-executive Director	20 February 2017–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
TIAN Suning	M	1963	Independent Non-executive Director	21 June 2018–present	0	0
ZHANG Juntong	M	1974	Chairman of the Board of Supervisors & Employee Supervisor	20 February 2017–present	0	0
WANG Jiazhi	M	1959	Vice Chairman of the Board of Supervisors & Employee Supervisor	10 April 2012–present	759,720	759,720
GUO Dong	M	1961	Vice Chairman of the Board of Supervisors & Employee Supervisor	30 March 2016–present	0	0
WANG Hang	M	1971	Shareholder Supervisor	20 February 2017–present	0	0
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	External Supervisor	20 February 2017–present	0	0
BAO Jiming	M	1952	External Supervisor	20 February 2017–present	0	0
CHEN Qiong	F	1963	Executive Vice President	8 June 2018–present	0	0
SHI Jie	M	1965	Executive Vice President	5 September 2016–present	0	0
LI Bin	F	1967	Executive Vice President	5 September 2016–present	0	0
LIN Yunshan	M	1970	Executive Vice President	5 September 2016–present	0	0
HU Qinghua	M	1963	Chief Risk Officer	20 February 2017– 8 June 2018	0	0
			Executive Vice President & Chief Risk Officer	8 June 2018–present	0	0

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)
BAI Dan	F	1963	Chief Financial Officer	10 April 2012–4 April 2018	0	0
			Chief Financial Officer & Board Secretary	4 April 2018–present	0	0
ZHANG Yuebo	M	1962	Chief Audit Officer	20 February 2017–present	0	0
OUYANG Yong	M	1963	Assistant President	4 April 2018–present	0	0
YAO Dafeng	M	1962	Former Non-executive Director	23 December 2014– 3 July 2018	0	0
TIAN Zhiping	M	1966	Former Non-executive Director	20 February 2017– 3 July 2018	0	0
CHENG Hoi-chuen	M	1948	Former Independent Non-executive Director	15 June 2012–21 June 2018	0	0
CHENG Guoqi	M	1975	Former External Supervisor	20 February 2017– 3 July 2018	0	0
FANG Zhou	M	1970	Former Board Secretary	20 February 2017– 4 April 2018	0	0

Notes:

- On 4 April 2018, the seventh extraordinary meeting of the seventh session of the Board of the Company considered and passed the Resolution on the Appointment of Ms. Bai Dan to Concurrently Serve as the Board Secretary of the Company (《關於聘任白丹女士兼任本公司董事會秘書的決議》)。On 29 August 2018, the Company issued the Announcement on the Approval of the Qualification of Board Secretary (《關於董事會秘書資格核准的公告》), pursuant to which, the qualification of Bai Dan as Board Secretary of the Company was approved by the CBIRC;
- On 4 April 2018, the seventh extraordinary meeting of the seventh session of the Board of the Company considered and passed the Resolution on the Nomination of Mr. Tian Suning as a Candidate of Independent Director of the Company (《關於提名田溯寧先生為本公司獨立董事候選人的決議》)。On 21 June 2018, the 2017 annual general meeting of the Company elected Mr. Tian Suning as an Independent Non-executive Director of the Company. On 3 September 2018, the Company issued the Announcement on the Approval of the Qualification of Independent Director (《關於獨立董事資格核准的公告》), pursuant to which, the qualification of Mr. Tian Suning as Independent Non-executive Director of the Company was approved by the CBIRC;
- On 4 April 2018, the seventh extraordinary meeting of the seventh session of the Board of the Company considered and passed the Resolution on the Appointment of Mr. Ouyang Yong to Serve as an Assistant President of the Company (《關於聘任歐陽勇先生擔任本公司行長助理的決議》)。On 29 June 2018, the Company issued the Announcement on the 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. Ouyang Yong as Assistant President of the Company was approved by the CBIRC;
- On 8 June 2018, the ninth meeting of the seventh session of the Board of the Company considered and passed the Resolution on the Appointment of Ms. Chen Qiong and Mr. Hu Qinghua to Serve as the Executive Vice Presidents of the Company (《關於聘任陳瓊女士、胡慶華先生擔任本公司副行長的決議》)。On 24 August 2018, the Company issued the Announcement on the Approval of the Qualifications of Senior Management (《關於高級管理人員資格核准的公告》), pursuant to which, the qualifications of Chen Qiong and Hu Qinghua as Executive Vice Presidents of the Company were approved by the CBIRC;
- In July 2018, capital reserve capitalisation for 2017 of the Company was completed. The number of shares held by Mr. Wang Jiazhi, Vice Chairman of the Board of Supervisors, has increased from 759,720 shares to 911,664 shares;
- During the Reporting Period, none of the incumbent Directors, Supervisors and Senior Management or Directors, Supervisors or Senior Management left during the Reporting Period had been subject to any penalty imposed by the securities regulatory authorities during the last three years.

Directors, Supervisors, Senior Management and Employees

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

1. On 4 April 2018, Mr. Fang Zhou tendered his resignation as Board Secretary and Joint Company Secretary of the Company due to personal reason;
2. On 21 June 2018, the 2017 annual general meeting of the Company elected Mr. Tian Suning as an Independent Non-executive Director of the Company. Mr. Cheng Hoi-chuen ceased to be an Independent Non-executive Director of the Company due to the expiry of his term of office;
3. On 3 July 2018, Mr. Yao Dafeng and Mr. Tian Zhiping tendered their resignations as Directors and members of the related special committees under the Board due to personal reasons;
4. On 3 July 2018, Mr. Cheng Guoqi tendered his resignation as a Supervisor and member of the related special committees under the Board of Supervisors due to personal reason.

(III) Changes of information of Directors and Supervisors

1. During the Reporting Period, Mr. Lu Zhiqiang, a Vice Chairman of the Board of the Company, ceased to be a standing committee member of CPPCC and a member of the Committee for Economic Affairs of CPPCC;
2. During the Reporting Period, Mr. Weng Zhenjie, a Non-executive Director of the Company, has been appointed as a standing committee member of the fifth session of CPPCC of Chongqing and a deputy officer of the eleventh session of the Central Financial Committee of China National Democratic Construction Association. Mr. Weng ceased to be a director of Yufu Expressway Co., Ltd. (渝涪高速公路有限公司);
3. During the Reporting Period, Mr. Wang Yugui, a Supervisor of the Company, was appointed as an independent director of Bank of Hebei Co., Ltd..

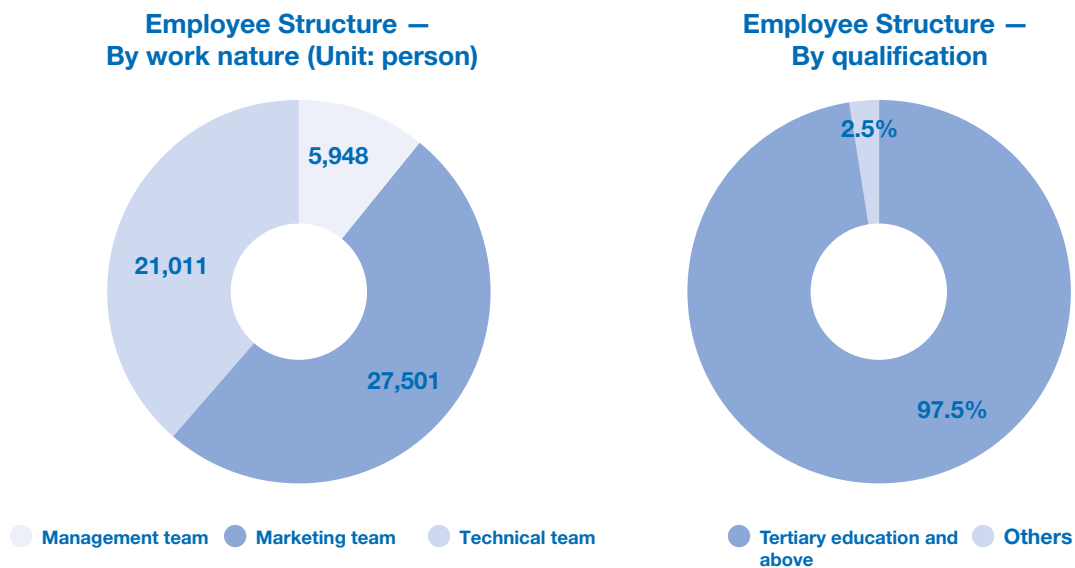
Directors, Supervisors, Senior Management and Employees

(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 57,134 employees, of which 54,460 were employees of the Company and 2,674 were employees of the subsidiaries of the Company. Divided by professional specialities, 5,948 employees were categorised as the management team, 27,501 employees as the marketing team, and 21,011 employees as the technical team. The Company had 53,096 employees with tertiary qualification or above, accounting for 97.5% of the total number of employees. 294 employees of the Company had retired.



III. Business Network

As at the end of the Reporting Period, the Company has set up 42 branches in 41 cities across China, with 2,874 banking outlets in total.

Directors, Supervisors, Senior Management and Employees

During the Reporting Period, the Company did not open any new branch.

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	13,394	3,945,075	No. 2 Fuxingmennei Avenue, Xicheng District, Beijing
Beijing Branch	192	3,555	670,961	No. 2 Fuxingmennei Avenue, Xicheng District, Beijing
Shanghai Branch	88	2,504	373,035	No. 100 Pudong Nan Road, Pudong New Area, Shanghai
Guangzhou Branch	106	2,210	209,979	Minsheng Tower, No. 68 Liede Avenue, Zhujiang New Town, Tianhe District, Guangzhou
Shenzhen Branch	88	1,865	242,079	Minsheng Bank Tower, Haitian Road, Futian District, Shenzhen
Wuhan Branch	134	1,478	109,292	China Minsheng Bank Tower, No. 396 Xinhua Road, Jiangnan District, Wuhan
Taiyuan Branch	115	1,322	106,931	3-5/F, 9-12/F, Office No. 3, Block B, Shanxi International Finance Centre, No. 426 South Middle Ring Street, Xiaodian District, Taiyuan
Shijiazhuang Branch	174	2,180	76,233	Minsheng Bank Tower, No. 197 Yu Hua Road East, Chang'an District, Shijiazhuang
Dalian Branch	79	892	69,612	Minsheng International Finance Centre, No. 52 Renmin East Road, Zhongshan District, Dalian
Nanjing Branch	198	2,875	293,274	No. 20 Hongwu Bei Road, Nanjing
Hangzhou Branch	89	1,653	128,389	Jinzun, Zunbao Mansion, No. 98 Shimin Street, Qianjiang New Town, Jianggan District, Hangzhou
Chongqing Branch	109	998	79,395	Tongjuyuanjing Building, No. 9 Jianxin Bei Road, Jiangbei District, Chongqing
Xi'an Branch	80	1,118	69,700	China Minsheng Bank Tower, No. 78 Erhuan Nanlu Xiduan, Xi'an
Fuzhou Branch	50	967	54,713	No. 282 Hudong Road, Fuzhou
Jinan Branch	168	1,883	103,069	No. 229 Luoyuan Street, Jinan
Ningbo Branch	44	735	42,698	No. 815 Ju Xian Road, Gaoxin District, Ningbo
Chengdu Branch	140	1,405	120,937	Block 6, No. 966 North Section of Tianfu Avenue, Gaoxin District, Chengdu
Tianjin Branch	67	886	62,235	China Minsheng Bank Tower, No. 43 Jianshe Road, Heping District, Tianjin
Kunming Branch	104	826	44,171	Chuntian Yinxiang Building, No. 331 Huancheng Nan Road, Kunming
Quanzhou Branch	48	524	28,542	No. 689 Citong Road, Fengze District, Quanzhou
Suzhou Branch	42	1,169	86,012	Minsheng Finance Tower, Block 23, Times Square, Suzhou Industrial Park, Suzhou
Qingdao Branch	84	941	49,343	No. 190, Hai'er Road, Laoshan District, Qingdao
Wenzhou Branch	27	561	42,458	1/F, 3-5/F and 12/F, Hengha Building, No. 1707 Wenzhou Avenue, Wenzhou
Xiamen Branch	23	521	42,152	Xiamen Minsheng Banking Mansion, No. 50 Hubin Nan Road, Xiamen

Directors, Supervisors, Senior Management and Employees

Name of entity	Number of outlets	Headcount	Total assets (RMB in millions) (excluding deferred income tax assets)	Address
Zhengzhou Branch	137	1,591	89,000	Minsheng Bank Tower, No. 1 CBD Shangwu Waihuan Road, Zhengdong New District, Zhengzhou
Changsha Branch	60	889	55,900	Minsheng Tower, No. 189 Binjiang Road, Yuelu District, Changsha
Changchun Branch	31	551	20,892	Minsheng Tower, No. 500 Changchun Street, Nangan District, Changchun
Hefei Branch	69	722	50,275	Tian Qing Building, No. 135 Bozhou Road, Hefei
Nanchang Branch	51	539	38,629	No. 545, Huizhan Road, Honggutan New District, Nanchang
Shantou Branch	40	431	18,873	1-3/F, Huajing Plaza, No. 17 Hanjiang Road, Longhu District, Shantou
Nanning Branch	40	534	37,623	1-3/F, 3M/F, 30-31/F and 36/F, Block C, China Resources Building, No. 136-5 Minzu Avenue, Nanning
Hohhot Branch	29	383	36,599	China Minsheng Bank Tower, Block C, Oriental Junzuo, No. 20 Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia
Shenyang Branch	67	500	24,602	No. 65 Nanjing North Street, Heping District, Shenyang
Hong Kong Branch	1	198	155,864	40/F and 4106-08, 41/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Guiyang Branch	43	462	41,149	No. 28 Yangguan Avenue, Guanshanhu District, Guiyang
Haikou Branch	20	150	8,671	Zhonghuan International Plaza, No. 77 Binhai Boulevard, Longhua District, Haikou
Lhasa Branch	5	157	9,161	Global Plaza, No. 8 Beijing West Road, Lhasa
Shanghai Pilot Free Trade Zone Branch	2	97	55,758	40/F, No. 100 Pudong South Road, Pudong New Area, Shanghai
Harbin Branch	9	206	8,589	1-6/F, Olympic Centre Area 1, No. 11 Aijian Road, Daoli District, Harbin
Lanzhou Branch	11	237	13,528	1-4/F, Gansu Daily Press Plaza, No. 123 Baiyin Road, Chengguan District, Lanzhou
Urumqi Branch	3	150	9,778	No. 314, Yangziji Road, Saybagh District, Urumqi
Xining Branch	2	105	7,961	1-4/F, Annex Building of Telecom Industrial Tower, No. 102 Kunlun Zhong Road, Chengzhong District, Xining
Yinchuan Branch	4	96	5,033	1-5/F, Block 19, Jinhaimingyue, No. 106 Shanghai West Road, Jinfeng District, Yinchuan
Inter-region adjustment	—	—	(1,897,597)	—
Total	2,874	54,460	5,840,573	—

- 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. Headcount of the Head Office includes the total number of the employees in SBUs, such as Credit Card Centre, other than the employees of the branches.
 3. 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, improved the internal control system and strengthened the comprehensive risk management in accordance with the latest regulatory policies and requirements. The Board duly performed its responsibilities for risk management while the Board of Supervisors effectively carried out its corporate governance duties. As such, these efforts have facilitated the compliance operation and stable development of the Company. Details of the corporate governance measures are as follows:

1. During the Reporting Period, the Company organised, prepared and convened a total of 47 meetings, including two shareholders' general meetings, eight Board meetings, 26 meetings of the special committees under the Board, three meetings of the Board of Supervisors and eight meetings of the special committees under the Board of Supervisors. 118 material resolutions, including the Company's Annual Report, Working Report of the Board, Working Report of the Board of Supervisors, Working Report of the President, financial budgets and final account reports, profit distribution plans and related party transactions, 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 and the Administrative Measures of Connected Transactions (《關聯交易管理辦法》), and formulated the Administrative Measures for Impairment of Financial Assets (Provisional) (《金融資產減值管理辦法(試行)》), the Guiding Opinion on Risk Management by the Board of Directors in 2018 (《董事會2018年風險管理指導意見》), the Liquidity Risk Management Policy in 2018 and Measures for the First Quarter (《2018年流動性風險管理政策與一季度措施安排》), Country Risk Rating and Risk Limit Management Plan in 2018 (《2018年國別風險評級與限額管理方案》) and Administrative Measures of Country Risk Management (《國別風險管理辦法》), which further improved the corporate governance system of the Company.
3. Pursuant to the Measures for Performance Appraisal of Senior Management (《高級管理人員盡職考評辦法》), 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 for 2017, and enabled the Board to fully understand their duty performance in order to continuously facilitate the improvement of their capabilities in performing duties.

Pursuant to the Provisional Measures for Performance Appraisal of Directors (《董事履職評價試行辦法》), the Company commenced at the beginning of 2018 and completed the annual appraisal of the Directors' performance for 2017 under the guidance of the Compensation and Remuneration Committee of the Board so as 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, and the Articles of Association and according to the development strategies and major objectives of the Company, the Board of Supervisors held 11 meetings of different kinds to consider 30 resolutions including but not limited to the Annual Report of the Company and the Working Report of the Board of Supervisors. The Board of Supervisors attended the meetings of the Board and important business meetings of the Senior Management and conducted 24 investigations and researches on comprehensive risk management system, overall asset quality, implementation of the strategic plan, progress of annual audit work 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 Board of Supervisors continued on its regular supervision and strengthened its supervision on the Company's asset quality management, risk management and internal control management. The Board of Supervisors also fully performed its functions in corporate governance, promoting the standardised operation and steady development of the Company.
5. During the Reporting Period, the Board of Supervisors conducted investigations and researches on the comprehensive risk management system, overall asset management, strategic transformation under 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 Board of Supervisors held forums and interviews with relevant departments of the Head Office and some branches respectively. The Board of Supervisors compiled over ten research reports, supervisory reports, strategic assessment reports and risk reminders based on the information and data collected of all kinds, and provided supervisory opinions and suggestions on relevant works of the Company which were highly valued by the Board and the Senior Management. Relevant departments were required to carry out rectifications according to the reports, which further reflected the supervisory function of the Board of Supervisors.
6. During the Reporting Period, pursuant to regulatory requirements, the Company duly performed the duties of the Board with respect to risk guidance and risk management by implementing a large number of measures in respect of risk guidance, risk assessment, risk reporting and risk research, which effectively enhanced the comprehensive risk management system of the Company. Through revising the rules of the Board's responsibilities for risk management according to the regulatory requirements, the Company fully and systematically improved the

Corporate Governance

duty performance and supervision capabilities and level of the Board in risk management. In accordance with the latest regulatory policies and requirements, the Company conducted risk assessment in respect of the comprehensive risk management system and compliance management in order to improve the effectiveness of risk supervision and enhance the efficiency of risk management by the Board. According to the Board's strategy and the general risk management of the Bank, and in response to the internal and external changes, particularly the stringent requirements on the Board's responsibilities of risk management, the Company formulated the Guiding Opinion on Risk Management of the Board of Directors in 2018 (《2018年董事會風險管理指導意見》) in order to enhance the comprehensiveness and pertinence of risk management guidance of the Board. The Company refined important risk system and reviewed major risk system to enhance the quality of risk system of the bank. Comprehensive risk management report and specific risk reports in respect of reputation risk, operational risk and outsourcing risk were obtained regularly in order that the Company can understand the major risks and their development trends in a comprehensive, timely and accurate manner and further enhance the transparency of risk management of the Board.

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 capacities of 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 44 A-share announcements and 86 H-share announcements, including 34 overseas regulatory announcements. The Company completed the publication of the Annual Report for 2017 and the First Quarterly Report of 2018. In order to enhance its influence in the capital market, during the Reporting Period, the Company contacted over 250 investors in aggregate through 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, upon the thorough internal inspection, the Company confirmed that no information had been provided to any substantial shareholder or ultimate controller before its publication.

II. Shareholders' General Meetings

During the Reporting Period, the Company held two general meetings, at which a total of 21 proposals were considered and approved. Details are as follows:

On 26 February 2018, the first extraordinary general meeting for 2018, the first A share class meeting for 2018 and the first H share class meeting for 2018 of the Company were held in Beijing in which shareholders attended and voted on-site and online. Please refer to the announcement dated 26 February 2018 published on the website of the Company (www.cmbc.com.cn) and the HKEXnews website of the SEHK (www.hkexnews.hk) for details.

On 21 June 2018, the 2017 annual general meeting, the second A share class meeting for 2018 and the second H share class meeting for 2018 of the Company were held in Beijing in which shareholders attended and voted on-site and online. Please refer to the announcement dated 21 June 2018 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, eight Board meetings were convened by the Board.

During the Reporting Period, 26 meetings of the special committees under the Board were convened, including five meetings of the Strategic Development and Investment Management Committee, five meetings of the Risk Management Committee, five meetings of the Audit Committee, four meetings of the Related Party Transactions Supervision Committee, four meetings of the Nomination Committee and three meetings of the Compensation and Remuneration Committee.

During the Reporting Period, the Strategic Development and Investment Management Committee under the Board discussed 25 proposals, and received and considered six special working reports. The Risk Management Committee discussed 15 proposals, and received and considered four special working reports. The Audit Committee discussed 23 proposals. The Related Party Transactions Supervision Committee discussed 22 proposals, and received and considered two special working reports. The Nomination Committee discussed six proposals. The Compensation and Remuneration Committee discussed seven proposals, and received and considered one special working report.

IV. Meetings of the Board of Supervisors and its Special Committees

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

During the Reporting Period, the Supervisory Committee of the Board of Supervisors discussed four proposals, and received and considered six special working reports. The Nomination and Examination Committee of the Board of Supervisors discussed nine proposals.

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 Board of Supervisors 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 gradually formed a set of relatively 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 optimised its internal control evaluation procedures and tools, so as to improve the internal control system and enhance the refinement level 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 six tier-one branches in Wuhan, Dalian, Kunming, Hangzhou, Quanzhou and Hong Kong, and seven tier-two branches in Yuxi, Yangzhou, Tangshan, Ganzhou, Ningde, Yuncheng and Huizhou, 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, subsequently intensive 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 organisation — 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 centres in Northern China, Eastern China, Southern China, Central China, Northeast China and Western China. The Audit Department set up the Corporate Business Audit Centre, Retail Business Audit Centre, Financial Markets Business Audit Centre, Information Technology Audit Centre, Public Service Audit Centre, Systematic Risk Audit and Data Application Centre, Planning and Project Management Centre and Evaluation Supervision Centre according to the specialised 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 the Board and notices will be given to the Senior Management. The Company has set up and improved the standardised policies and systems for internal audit, and an integrated audit examination system comprising onsite 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 financing, credit card, financial accounting and risk management. The Company has principally 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 various forms including comprehensive audits, special audits, off-site audits and economic accountability 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 2018 and performed a total of 14 special audits. It performed 13 comprehensive internal control audits on business units and conducted 173 economic accountability audits. It issued 37 special audit reports, 13 comprehensive internal control audit reports and 190 economic accountability audit reports. It also issued 12 risk reminders and audit comments. Moreover, 18 reports and relevant updates on major concerns were issued. It fully performed its duties of internal audit supervision, evaluation and consultation. The problems identified in the audit were tracked continuously 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 2017

The Company has distributed dividends to all of its shareholders according to the Profit Distribution Plan for the Second Half of 2017 which was passed at the eighth extraordinary meeting of the seventh session of the Board and the 2017 annual general meeting. On the basis of the total share capital of the Company on the record dates, the Company distributed a cash dividend for the second half of 2017 of RMB0.90 (tax inclusive) for every 10 shares to all shareholders whose names appear on the register of members on the record dates. The total cash dividend amounted to RMB3,284 million. 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 has distributed the cash dividend to the holders of A shares, the shareholders of Northbound Trading, the holders of H shares and the shareholders of Southbound Trading in July 2018 in accordance with relevant provisions. The profit distribution plan was completed. For details, please refer to the announcements of the Company dated 21 June 2018 and 20 July 2018 published on the HKEXnews website of the SEHK and the announcement dated 28 June 2018 published on the website of the SSE, respectively.

II. The Implementation of the Plan of Capital Reserve Capitalisation for 2017 of the Company

According to the plan of capital reserve capitalisation for 2017 considered and approved at the eighth extraordinary meeting of the seventh session of the Board and 2017 annual general meeting, the Company capitalised the capital reserve from the issue of shares at premium by issuing shares to all shareholders whose names appear on the registers at the record dates in a proportion of 2 shares for every 10 shares being held. Based on the total share capital of the Company as at the record dates, the total number of shares issued by capitalisation of the capital reserve was 7,297 million shares.

The shares issued by capitalisation of the capital reserve to the holders of A shares, the shareholders of Northbound Trading, the holders of H shares and the shareholders of Southbound Trading were listed and commenced trading in July 2018 in accordance with relevant provisions. The implementation of the plan of capital reserve capitalisation was completed. For details, please refer to the announcements of the Company dated 21 June 2018 and 20 July 2018 published on the HKEXnews website of the SEHK and the announcement dated 28 June 2018 published on the website of the SSE, respectively.

III. Interim Profit Distribution for 2018

No interim profit will be distributed and no capital reserve will be used for capitalisation for the interim period of 2018.

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

Please see “(VII) Major equity investments and management of consolidated financial statements” in Section “IX. Performance of Key Business Lines” in Chapter 3.

V. 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.

VI. 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 2018, 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)	850,448,725	4	12.27
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. 23.71% and 29.08% 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 850,448,725 H shares (Long position) comprised 6,864,600 H shares directly held by China Oceanwide International Investment Company Limited, 503,584,125 H shares directly held by Oceanwide International Equity Investment Limited and 340,000,000 H shares directly held by Long Prosper Capital Company Limited. Long Prosper Capital Company Limited was a wholly-owned subsidiary of Oceanwide International Equity Investment Limited. 98.86% of the issued share capital of Oceanwide International Equity Investment Limited was indirectly held by Oceanwide Holdings Co., Ltd, while all of the issued share capital of China Oceanwide International Investment Company Limited and 67.15% 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 2018, 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.

(III) As at 30 June 2018, 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 2018, 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 2018, 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.

VII. 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 2017 and the Special Report on the Plan for Protection of Rights and Interests of Consumers for 2018 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.

During the Reporting Period, in order to protect the rights and interests of consumers, the Company operated its business in accordance with laws, performed its social responsibilities, and focused on the prevention and mitigation of financial risks. The Company developed the corporate culture featuring protection of consumers' rights and interests by further optimising its systems, strengthening the supervision and management of product flow, and boosting its working efficiency. Firstly, in respect of system development, the Company refined its system by remedying defects in accordance with regulatory requirements. The special systems for protecting rights and interests of consumers and relevant business systems were updated. Secondly, in respect of system and mechanism, the Company held joint work meetings and optimised its regular reporting mechanism. In order to protect the rights and interests of consumers effectively, the Company refined its special review mechanism for protection of consumers and reporting system of major events. Thirdly, in respect of product and service management, the Company placed great emphasis on the protection of rights and interests of consumers in all products and services and continued to strengthen risk management and control in relation to wealth management and agency business. With an aim to prevent major risks, the Company conducted various risk examination and inspection, including investigation against "unauthorised sales of financial products", evaluation of risk management against bank card frauds and inspection of agency business. Fourthly, in respect of financial education, in order to promote specific principles and ideas to the public in various ways within specific timeframe, the Company held various publicity events in the first half of 2018, including Financial Consumers Rights and Interests Themed Day (金融消費者權益日), "Prevention of Illegal Fund Raising Themed Month (防範非法集資宣傳月)" and "Protect Your Wealth by Acquiring Financial Knowledge (普及金融知識·守住「錢袋子」)". 1,671 outlets of the Company participated in the organisation of 6,455 publicity activities with over 5.38 million participants and over 990,000 leaflets were sent out. Such publicity events were reported by the media for 8,652 times. Fifthly, in respect of complaint handling, the Company further enhanced the construction of its mechanism for handling complaints and set up a mechanism for analysing complaints and improvements. The Company also facilitated the continuous improvement of its complaints handling capabilities through holding joint meetings for complaints.

Major Events

I. Material Litigation and Arbitration Proceedings

During the Reporting Period, the Company had no litigation or arbitration proceeding that had significant impact on its operations. As of the end of the Reporting Period, there were 23,534 pending litigations with disputed amount of over RMB1 million involving the Company as plaintiff for approximately RMB142,142.80 million and 351 pending litigations involving the Company as defendant for approximately RMB2,507.39 million.

II. Purchase and Disposal of Assets and Mergers and Acquisitions

The Company has strictly complied with policies and rules of the Company 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 arrangements for writing off residual value and account treatment of fixed assets that satisfied the conditions 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. Handover of land parcel was completed on 10 May 2018. The project is currently in the process of selecting contractors, including the selection of survey, design and project management companies, making preparation for the design work;

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. All construction work and inspection and acceptance of the construction have been completed. The relocation of Xiamen Branch of the Bank was completed and such branch commenced its operation in November 2017. The settlement and audit are currently under progress;

The Company participated in and won the bid for the land use right of the granted parcel of land of Plot 2012-8 on the north of Headquarters Economic Zone in Donghai Sub-district, Quanzhou, and the underground structure was completed in April 2018. Currently, main building is under construction and roof-top sealing will be completed in November 2018. As at the end of the Reporting Period, the investigation of curtain wall construction companies and the tendering process were completed. Currently, tendering of elevators and diesel generators, and work drawings are under progress;

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 handover of the land with Fuzhou Land Development Centre is in the process, which is expected to be completed in August 2018;

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 formality of title registration is in the process;

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 on 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 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 on the west of East Fourth Ring Road and the south of Lianhu Road in Zhengdong New District, Zhengzhou. Currently, the construction of the project has not commenced;

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 on the south of Shangding Road and the west of Mingli Road in Zhengdong New District, Zhengzhou. Currently, the construction of the project has not commenced.

IV. Major Guarantees

During the Reporting Period, no major guarantees of the Group were required to be disclosed except for the financial guarantees provided in the course of business operation and 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.

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, Peng Xuefeng and Tian Suning. 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. In accordance with relevant provisions, Mr. Cheng Hoi-chuen has ceased to be an Independent Director of the Company with effect from 21 June 2018 due to the expiration of his term of office. On 29 June 2018, the Resolution regarding the Change of Members of Special Committees of the Seventh Session of the Board (《關於調整公司第七屆董事會部分專門委員會成員的決議》) was considered and approved at the tenth meeting of the seventh session of the Board, pursuant to which, the Director Tian Suning was appointed as a member of the Audit Committee.

On 3 July 2018, the Board of the Company received a written resignation from Mr. Tian Zhiping who tendered his resignation as a Director and member of the related special committees of the Company. His resignation became effective upon the submission of his written resignation to the Board of the Company. As at the date of this report, the members of the Audit Committee of the Company comprised Liu Ningyu (chairman), Weng Zhenjie, Peng Xuefeng and Tian Suning.

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 2018 Interim Report and the 2018 Interim Results Announcement as of 30 June 2018.

VIII. Appointment and Removal of Accounting Firms

The 2017 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 2018, 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 2018 financial statements, the service fees for agreed-upon procedures of first quarterly and third quarterly financial statements, the review of the 2018 interim financial statements and the auditing of internal control for 2018, was RMB12.00 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.

Major Events

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 46 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 the Directors, Supervisors and Senior Management of the Company which has a significant impact on the operation of the Company.

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

As of the end of the Reporting Period, the Company has not implemented any employee share ownership scheme.

XIII. Environmental Policy of the Company and its Performance

The Company and its subsidiaries were not included in the list of key pollutant-discharging units published by the environmental protection department. The Company has strictly complied with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Solid Pollution Prevention and Control Law of the PRC (《中華人民共和國固體廢物污染防治法》) and other environmental laws and regulations, and during the Reporting Period, there was no penalty resulting from failing to comply with regulations relating to environmental protection. During the Reporting Period, the Company continued to promote green credit business, increase green supply, enhance its supports to green economy, low-carbon economy and recycle economy, keep abreast of relevant government policies relating to the environmental and social risks and refine the alerting mechanism in order to prevent and mitigate the environmental and social risks. The impact of the operation of the Company on the environment mainly results from energy consumption and emission during the ordinary operation. Through initiating green office, enhancing employees' awareness of environmental protection and implementing the construction of a green bank, the Company has continuously promoted energy saving and emission reduction in order to minimise the impact on the environment. Specific emission data and relevant management information will be disclosed in 2018 Environmental, Social and Governance Report of the Company.

XIV. Social Responsibility and Poverty Alleviation Responsibility of the Company

Adhering to the mission of “From the People, For the People (為民而生·與民共生)”, the Company has fully capitalised the characteristics of financial institution, aggregated powers and put more efforts in the active performance of its social responsibility. During the Reporting Period, the Company stuck to sharing the results of its development with the society by implementing various key charity projects, including “Treatment Project of Congenital Heart Disease of Children in Tibet (西藏兒童先天性心臟病救治項目)”, AIDS Prevention Project of China Red Ribbon Foundation and the third round of “Power of Minsheng’s Love — ME Charity Innovation Funding Scheme (我決定民生愛的力量 — ME公益創新資助計劃)” and others.

During the Reporting Period, in accordance with the requirements of targeted poverty alleviation of the Central Government and in order to enhance the effectiveness of poverty alleviation, the Company has refined its poverty alleviation mechanism and enriched its poverty alleviation patterns, successfully helping Fengqiu County shake off poverty and Hua Country consolidate poverty alleviation results. Mr. Hong Qi, the Chairman, led a team to visit these two counties and made investigations and researches on the poverty alleviation work results so as to specify and implement the poverty alleviation strategies. The Company made donations to these two counties in respect of poverty alleviation programmes on industries, education, healthcare, skills, e-commerce and others. At the same time, leveraging on its advantages in financial industry and based on the actual circumstances in these two counties, the Company has formulated special policies regarding loans for poverty alleviation. By various measures including enlarging loan scale, offering favourable interest rates, implementing the pricing of internal fund transfer between the Head Office and the branches and increasing appraisal margins, the Company has strengthened the granting of loans for poverty alleviation to provide supports to the development of major local industries, such as manufacturing, cloth processing, breeding and planting.

XV. Other Major Events

During the Reporting Period, there were no other major events of the Company.

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 125 to 269 which comprises the consolidated statement of financial position as at 30 June 2018, 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 2018 is not prepared, in all material respects, in accordance with International Accounting Standards 34 “*Interim Financial Reporting*”.



Certified Public Accountants

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

30 August 2018

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2018 (unaudited)	2017 (unaudited)
Interest income		114,126	113,133
Interest expense		(80,252)	(72,018)
Net interest income	5	33,874	41,115
Fee and commission income		26,191	27,375
Fee and commission expense		(1,864)	(2,898)
Net fee and commission income	6	24,327	24,477
Net trading gain	7	14,079	1,426
Net gain arising from disposals of securities and discounted bills	8	941	1,685
Impairment losses on assets	9	(19,531)	(17,139)
Operating expenses	10	(18,870)	(18,314)
Other operating income		1,066	1,201
Profit before income tax		35,886	34,451
Income tax expense	11	(6,033)	(5,837)
Net profit		29,853	28,614
Net profit attributable to:			
Equity shareholders of the Bank		29,618	28,088
Non-controlling interests		235	526
		29,853	28,614
Earnings per share (expressed in RMB)	12		
Basic earnings per share (restated for comparative period)		0.68	0.64
Diluted earnings per share (restated for comparative period)		0.68	0.64

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Net profit	29,853	28,614
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Net gains or losses from debt securities at fair value through other comprehensive income	2,308	—
Transfer to profit or loss	(29)	—
Less: Income tax relating to debt securities at fair value through other comprehensive income	(627)	—
Change in fair value of available-for-sale securities	—	(733)
Transfer to profit or loss	—	(547)
Less: Income tax relating to available-for-sale securities	—	317
Effective hedging portion of gains or losses arising from cash flow hedging instruments	9	953
Less: Income tax relating to hedging instruments	(2)	(238)
Exchange difference on translating foreign operations	13	(249)
Other comprehensive income, net of tax	1,672	(497)
Total comprehensive income	31,525	28,117
Total comprehensive income attributable to:		
Equity shareholders of the Bank	31,394	27,626
Non-controlling interests	131	491
	31,525	28,117

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	30 June 2018 (unaudited)	31 December 2017 (audited)
ASSETS			
Cash and balances with central bank	13	417,747	442,938
Balances with banks and other financial institutions	14	49,060	75,257
Precious metals		9,631	20,836
Financial assets at fair value through profit or loss	15	490,672	74,601
Positive fair value of derivatives	16	34,362	18,734
Placements with banks and other financial institutions	17	186,389	143,205
Financial assets held under resale agreements	18	34,306	52,812
Loans and advances to customers	19	2,967,784	2,729,788
Investment securities:			
– Financial assets at fair value through other comprehensive income	20	362,836	—
– Available-for-sale securities	20	—	378,889
– Financial assets measured at amortised cost	20	1,200,414	—
– Held-to-maturity securities	20	—	708,244
– Loans and receivables	20	—	974,163
Long-term receivables	21	112,122	101,304
Property and equipment	22	46,706	48,338
Deferred income tax assets	23	29,583	29,162
Investments in associates		23	21
Other assets	25	119,508	103,794
Total assets		6,061,143	5,902,086
LIABILITIES			
Borrowings from central bank		334,043	335,173
Deposits from customers	26	3,157,881	2,966,311
Deposits and placements from banks and other financial institutions	27	1,260,373	1,315,993
Financial liabilities at fair value through profit or loss		1,455	3,373
Negative fair value of derivatives	16	22,336	18,076
Financial assets sold under repurchase agreements	28	85,648	107,522
Borrowings from banks and other financial institutions	29	126,730	146,999
Provisions	30	1,924	809
Debt securities issued	31	549,420	501,927
Current income tax liabilities		9,018	11,807
Deferred income tax liabilities	23	64	65
Other liabilities	32	104,407	104,219
Total liabilities		5,653,299	5,512,274

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Financial Position (Continued)

As at 30 June 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note	30 June 2018 (unaudited)	31 December 2017 (audited)
EQUITY			
Share capital	33	43,782	36,485
Other equity instrument			
Including: preference shares	34	9,892	9,892
Reserves			
Capital reserve	33	57,457	64,753
Surplus reserve	35	34,914	34,914
General reserve	35	74,304	74,168
Other reserves		(1,397)	(4,662)
Retained earnings	35	178,090	163,420
Total equity attributable to equity shareholders of the Bank		397,042	378,970
Non-controlling interests	36	10,802	10,842
Total equity		407,844	389,812
Total liabilities and equity		6,061,143	5,902,086

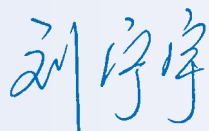
Approved and authorised for issue by the Board of Directors on 30 August 2018.



Hong Qi
Chairman



Zheng Wanchun
Director and president



Liu Ningyu
Director



(Company Seal)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018
(Expressed in millions of Renminbi, unless otherwise stated)

Unaudited	Attributable to equity shareholders of the Bank													
	Note	Share capital 33	Other equity instrument 34	Reserves							Retained earnings 35	Non-controlling interests 36	Total equity	
				Capital reserve 33	Surplus reserve 35	Investment		Cash flow		Subtotal				
						General reserve 35	revaluation reserve 38	Exchange reserve	Hedging reserve 38					
At 31 December 2017		36,485	9,892	64,753	34,914	74,168	(4,757)	98	(3)	169,173	163,420	378,970	10,842	389,812
Changes in accounting policies		–	–	–	–	–	1,489	–	–	1,489	(11,527)	(10,038)	(148)	(10,186)
At 1 January 2018		36,485	9,892	64,753	34,914	74,168	(3,268)	98	(3)	170,662	151,893	368,932	10,694	379,626
Net profit		–	–	–	–	–	–	–	–	–	29,618	29,618	235	29,853
Other comprehensive income, net of tax		–	–	–	–	–	1,730	39	7	1,776	–	1,776	(104)	1,672
Total comprehensive income		–	–	–	–	–	1,730	39	7	1,776	29,618	31,394	131	31,525
Appropriation to general reserve	35	–	–	–	–	136	–	–	–	136	(136)	–	–	–
Cash dividends	37	–	–	–	–	–	–	–	–	–	(3,284)	(3,284)	(27)	(3,311)
Ordinary shares converted from capital reserve		7,297	–	(7,297)	–	–	–	–	–	(7,297)	–	–	–	–
Capital injection by non-controlling shareholders		–	–	1	–	–	–	–	–	1	(1)	–	4	4
At 30 June 2018		43,782	9,892	57,457	34,914	74,304	(1,538)	137	4	165,278	178,090	397,042	10,802	407,844

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2018

(Expressed in millions of Renminbi, unless otherwise stated)

Unaudited	Attributable to equity shareholders of the Bank													
	Note	Reserves									Retained earnings	Non-controlling interests	Total equity	
		Share capital	Other equity instrument	Capital reserve	Surplus reserve	Investment			Cash flow					
						General reserve	revaluation reserve	Exchange reserve	Hedging reserve	Subtotal				
33	34	33	35	35	38		38	35	36					
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	35	–	–	–	2,753	–	–	–	–	2,753	(2,753)	–	–	–
Appropriation to general reserve	35	–	–	–	–	141	–	–	–	141	(141)	–	–	–
Cash dividends	37	–	–	–	–	–	–	–	–	–	(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
At 1 July 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
Net profit		–	–	–	–	–	–	–	–	–	21,725	21,725	583	22,308
Other comprehensive income, net of tax		–	–	–	–	–	(1,925)	(136)	3	(2,058)	–	(2,058)	(59)	(2,117)
Total comprehensive income		–	–	–	–	–	(1,925)	(136)	3	(2,058)	21,725	19,667	524	20,191
Appropriation to surplus reserve	35	–	–	–	2,109	–	–	–	–	2,109	(2,109)	–	–	–
Appropriation to general reserve	35	–	–	–	–	1,098	–	–	–	1,098	(1,098)	–	–	–
Cash dividends	37	–	–	–	–	–	–	–	–	–	(4,901)	(4,901)	–	(4,901)
Equity transactions with non-controlling interests		–	–	9	–	–	–	–	–	9	–	9	(9)	–
At 31 December 2017		36,485	9,892	64,753	34,914	74,168	(4,757)	98	(3)	169,173	163,420	378,970	10,842	389,812

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the six months ended 30 June 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Cash flows generated from operating activities:		
Profit before income tax	35,886	34,451
<i>Adjustments for:</i>		
– Impairment losses on assets	19,531	17,139
– Depreciation and amortisation	2,479	2,363
– Changes in provisions	(309)	(153)
– Losses on disposal of property and equipment and other long-term assets	19	35
– Gains from changes in fair value	(11,470)	(1,177)
– Net gains on disposal of investment securities	(11,576)	(1,554)
– Interest expense on debt securities issued	12,168	8,575
– Interest income from investment securities	(29,582)	(38,075)
	17,146	21,604
<i>Changes in operating assets:</i>		
Net decrease in balances with central bank, banks and other financial institutions	50,547	68,720
Net (increase)/decrease in placements with banks and other financial institutions	(35,453)	26,895
Net decrease in financial assets held under resale agreements	18,427	69,930
Net increase in loans and advances to customers	(269,775)	(254,099)
Net increase in other operating assets	(24,708)	(4,390)
	(260,962)	(92,944)
<i>Changes in operating liabilities:</i>		
Net increase/(decrease) in deposits from customers	191,570	(59,115)
Net decrease in deposits and placements from banks and other financial institutions	(55,620)	(235,275)
Net decrease in financial assets sold under repurchase agreements	(21,764)	(22,847)
Income tax paid	(6,464)	(6,787)
Net (decrease)/increase in borrowings from central bank	(1,130)	9,030
Net (decrease)/increase in other operating liabilities	(25,048)	18,321
	81,544	(296,673)
Net cash used in operating activities	(162,272)	(368,013)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Note	Six months ended 30 June	
		2018 (unaudited)	2017 (unaudited)
Cash flows from investing activities:			
Proceeds from sale and redemption of investments		799,668	1,377,073
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		925	865
Net proceeds from acquisition of subsidiaries and other business units		—	330
Cash payment for purchase of investment securities		(664,302)	(1,217,469)
Cash payment for purchase of property and equipment, intangible assets and other long-term assets		(1,987)	(3,800)
Net cash generated from investing activities		134,304	156,999
Cash flows from financing activities:			
Proceeds from issue of debt securities		588,799	369,364
Repayment of debt securities issued		(551,258)	(244,620)
Interest paid on debt securities issued		(2,836)	(4,058)
Dividends paid		—	(5)
Net cash generated from financing activities		34,705	120,681
Net increase/(decrease) in cash and cash equivalents		6,737	(90,333)
Cash and cash equivalents at 1 January		109,099	171,303
Effect of foreign exchange rate changes		234	2,013
Cash and cash equivalents at 30 June	39	116,070	82,983

The accompanying notes form an integral 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 2018, 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 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 2018.

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 2017 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 2017 are available from the Bank’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2018.

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:

IFRS 15 “Revenue from contracts with customers”

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

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

IFRS 9 “Financial instruments”

IFRS 9 Financial Instruments (“IFRS 9”) introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets, hedge accounting and disclosure. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis and includes an exception from the requirement to restate comparative information. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

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 (continued)

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. On initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL. If a debt instrument is classified as FVOCI then interest revenue, impairment, foreign exchange gains/losses and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognised in profit or loss. Gains and losses on that security will be recognised in other comprehensive income without recycling.

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances, which will result in an early recognition of credit losses.

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 (continued)

Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Disclosure

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

Transition

The Group is required to adopt IFRS 9 from 1 January 2018. The group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of net assets at 1 January 2018.

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 (continued)

The following financial assets has been reclassified and remeasured on transition to IFRS 9 on 1 January 2018.

Financial instruments	IAS 39		IFRS 9	
	Classification	Carrying amount	Classification	Carrying amount
Financial assets				
Cash and balances with central banks	Amortised cost (loans and receivables)	442,938	Amortised cost	442,938
Balances with banks and other financial institutions	Amortised cost (loans and receivables)	218,462	Amortised cost	218,401
Financial assets at fair value through profit or loss	FVTPL (trading)	64,666	FVTPL (mandatory)	74,601
Derivatives	FVTPL (designated) FVTPL	9,935 18,734	FVTPL (designated) FVTPL (mandatory)	— 18,734
Financial assets held under resale agreements	Amortised cost (loans and receivables)	52,812	Amortised cost	52,687
Interest receivable	Amortised cost (loans and receivables)	39,664	Amortised cost	39,720
Loans and advances to customers	Amortised cost (loans and receivables)	2,729,788	Amortised cost FVOCI	2,629,980 89,022
Investment securities	Amortised cost (loans and receivables)	974,163	Amortised cost	1,212,387
	Amortised cost (held-to-maturity securities)	708,244	FVOCI	345,207
	FVOCI (available for sale)	378,889	FVTPL (mandatory)	502,787
Long-term receivables	Amortised cost (loans and receivables)	101,304	Amortised cost	100,919
Other assets	Amortised cost (loans and receivables)	40,864	Amortised cost	40,916

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 (continued)

Reconciliation between the carrying amounts of the financial instruments presented and measured under IAS 39 and that of financial instruments measured under IFRS 9 on 1 January 2018 is as follows:

Financial instruments	Note	Carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at 1 January 2018
Financial assets measured at amortised cost					
Cash and balances with central bank					
Balance under IAS 39 and IFRS 9		442,938			442,938
Balances with banks and other financial institutions					
Balance under IAS 39		218,462			
Remeasurement: provision for expected credit losses				(61)	
Balance under IFRS 9					218,401
Financial assets held under resale agreements					
Balance under IAS 39		52,812			
Remeasurement: provision for expected credit losses				(125)	
Balance under IFRS 9					52,687
Interest receivable					
Balance under IAS 39		39,664			
Less: to FVTPL (IFRS 9)			(111)		
Add: from loans and receivables (IAS 39)			2		
Add: from held-to-maturity securities (IAS 39)			4		
Add: from available-for-sale securities (IAS 39)			161		
Balance under IFRS 9					39,720

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 (continued)

Financial instruments	Note	Carrying amount under IAS 39 as at			Carrying amount under IFRS 9 as at
		31 December 2017	Reclassification	Remeasurement	
Loans and advances to customers					
Balance under IAS 39		2,729,788			
Less: to FVOCI (IFRS 9)	A		(88,807)		
Remeasurement: provision for expected credit losses				(11,001)	
Balance under IFRS 9					2,629,980
Long-term receivables					
Balance under IAS 39		101,304			
Remeasurement: provision for expected credit losses				(385)	
Balance under IFRS 9					100,919
Financial investments					
Balance under IAS 39		—			
Add: from held-to-maturity securities (IAS 39)			708,040		
Remeasurement: provision for expected credit losses				(88)	
Add: from loans and receivables (IAS 39)			497,456		
Remeasurement: provision for expected credit losses				(165)	
Add: from available-for-sale securities (IAS 39)	C		7,259		
Remeasurement: provision for expected credit losses				(115)	
Balance under IFRS 9					1,212,387

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 (continued)

Financial instruments	Note	Carrying amount	Reclassification	Remeasurement	Carrying amount
		under IAS 39 as at 31 December 2017			under IFRS 9 as at 1 January 2018
Financial investments:					
held-to-maturity securities					
Balance under IAS 39		708,244			
Less: to interest receivable			(4)		
Less: to amortised cost (IFRS 9)			(708,040)		
Less: to FVTPL (IFRS 9) – mandatory	B		(200)		
Balance under IFRS 9					–
Financial investments:					
loans and receivables					
Balance under IAS 39		974,163			
Less: to interest receivable			(2)		
Less: to amortised cost (IFRS 9)			(497,456)		
Less: to FVOCI (IFRS 9)	A		(28,856)		
Less: to FVTPL (IFRS 9) – mandatory	B		(447,799)		
Less: to other assets			(50)		
Balance under IFRS 9					–
Other assets					
Balance under IAS 39		40,864			
Add: from loans and receivables (IAS 39)			50		
Remeasurement: provision for expected credit losses				2	
Balance under IFRS 9					40,916
Subtotal		5,308,239	(558,353)	(11,938)	4,737,948

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 (continued)

Financial instruments	Note	Carrying amount under IAS 39 as at			Carrying amount under IFRS 9 as at
		31 December 2017	Reclassification	Remeasurement	
Financial assets at fair value through profit or loss					
Financial investments-at fair value through profit or loss					
Balance under IAS 39		74,601			
Less: to FVOCI (IFRS 9)			(914)		
Add: from interest receivable			111		
Add: from loans and receivables (IAS 39)	B		447,799		
Remeasurement: from amortised cost to fair value				(1,421)	
Remeasurement: reverse of impairment allowance under IAS 39				358	
Add: from held-to-maturity securities (IAS 39)	B		200		
Add: from available-for-sale securities (IAS 39)	B		56,623		
Remeasurement: reverse of impairment allowance under IAS 39				1,109	
Remeasurement: from amortised cost to fair value				31	
Remeasurement: fair value change				(1,109)	
Balance under IFRS 9					577,388
Derivatives					
Balance under IAS 39 and IFRS 9		18,734			18,734
Subtotal		93,335	503,819	(1,032)	596,122

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 (continued)

Financial instruments	Note	Carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at 1 January 2018
Financial assets at fair value through other comprehensive income					
Financial investments: at FVOCI (debt securities)					
Balance under IAS 39		—			
Add: from loans and advances to customers	A		88,807		
Remeasurement: reverse of impairment allowance under IAS 39				599	
Remeasurement: from amortised cost to fair value				(384)	
Add: from FVTPL			914		
Add: from loans and receivables (IAS 39)	A		28,856		
Remeasurement: from amortised cost to fair value				432	
Add: from available-for-sale securities (IAS 39)			314,691		
Remeasurement: reverse of impairment allowance under IAS 39				303	
Remeasurement: fair value change				(144)	
Balance under IFRS 9					434,074

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 (continued)

Financial instruments	Note	Carrying amount under IAS 39 as at			Carrying amount under IFRS 9 as at
		31 December 2017	Reclassification	Remeasurement	
Financial investments: at FVOCI (equity securities)					
Balance under IAS 39		—			
Add: from available-for-sale securities (IAS 39) — designated	D		155		
Balance under IFRS 9					155
Financial investments: available-for-sale securities (IAS 39)					
Balance under IAS 39		378,889			
Less: to interest receivable			(161)		
Less: to amortised cost (IFRS 9)	C		(7,259)		
Less: to FVOCI (IFRS 9) — debt instruments			(314,691)		
Less: to FVOCI (IFRS 9) — equity instruments	D		(155)		
Less: to FVTPL (IFRS 9)	B		(56,623)		
Balance under IFRS 9					—
Subtotal		378,889	54,534	806	434,229
Others		(809)	—	(1,424)	(2,233)
Deferred income tax assets		29,162	—	3,402	32,564
Total		5,808,816	—	(10,186)	5,798,630

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 (continued)

The Group has adopted IFRS 9 from 1 January 2018. There were a net increase of RMB1,413 million in other comprehensive income (after tax) and a net decrease of RMB11,599 million in retained profits (after tax) arising from the new requirements on classification and measurement of financial assets listed above as compared with that when recognised under IAS 39.

- A. Certain loans and advances to customers held by the Group, and certain debt instruments originally classified as loans and receivables were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at FVOCI under IFRS 9.
- B. Certain debt instruments originally classified as loans and receivables, held-to-maturity securities or available-for-sale securities, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at FVTPL under IFRS 9. The reclassified and remeasured financial assets include certain non-trading equity investments (RMB4,622 million) which the Group did not choose to designate as at FVOCI on the transition date.
- C. Certain debt instruments originally classified as available-for-sale securities were held within a business model whose objective on the transition date was to collect contractual cash flows. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets measured at amortised cost under IFRS 9 and their fair value as at 30 June 2018 was RMB7,090 million. Assuming that these financial assets were not reclassified upon transition to IFRS 9, any loss arising from changes in their fair value during the current period that would have been recognised in other comprehensive income was RMB169 million.
- D. The reclassified and remeasured financial assets include certain non-trading equity investments (RMB155 million) which the Group chose irrevocably to designate as at FVOCI on the transition date.

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 (continued)

The following table reconciles the closing impairment allowance under IAS 39 to ECL allowance determined in accordance with IFRS 9 on the initial application date:

	Impairment allowance under IAS 39/ contingent liabilities as at 31 December 2017	Reclassification	Remeasurement	Impairment allowance under IFRS 9 as at 1 January 2018
Loans and receivables (IAS 39)/ Financial assets measured at amortised cost (IFRS 9)				
Balances and placements with banks and other financial institutions	(95)	—	(61)	(156)
Financial assets held under resale agreements	(5)	—	(125)	(130)
Loans and advances to customers	(73,920)	—	(11,214)	(85,134)
Long-term receivables	(3,426)	—	(385)	(3,811)
Financial investments	(1,908)	—	(165)	(2,073)
Other assets	(1,110)	—	2	(1,108)
Loans and advances (IAS 39)/ Financial assets at fair value through other comprehensive income (IFRS 9)				
Loans and advances to customers	(599)	—	(40)	(639)
Financial investments	—	—	(288)	(288)
Loans and advances (IAS 39)/ Financial assets at fair value through profit or loss (IFRS 9)				
Financial investments	(358)	358	—	—
Held-to-maturity securities (IAS 39)/ Financial assets measured at amortised cost (IFRS 9)				
Financial investments	(62)	—	(88)	(150)
Available-for-sale securities (IAS 39)/ Financial assets measured at amortised cost (IFRS 9)				
Financial investments	(15)	—	(115)	(130)

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 (continued)

	Impairment allowance under IAS 39/contingent liabilities as at 31 December 2017	Reclassification	Remeasurement	Impairment allowance under IFRS 9 as at 1 January 2018
Available-for-sale securities (IAS 39)/ Financial assets at fair value through other comprehensive income (IFRS 9) Financial investments	(303)	—	(156)	(459)
Available-for-sale securities (IAS 39)/ Financial assets at fair value through profit or loss (IFRS 9) Financial investments	(1,109)	1,109	—	—
Credit commitments and financial guarantee contracts Credit commitments	(809)	—	(1,424)	(2,233)
Total	(83,719)	1,467	(14,059)	(96,311)

Amendments to IFRS 2, Share-based payment “Classification and measurement of share-based payment transactions”

The amendments clarify the accounting for the following classification and measurement issues under IFRS 2:

- Measurement of cash-settled share-based payments
The amendments clarify that the fair value of liabilities for cash-settled share-based payments should be measured using the same approach as for equity-settled share-based payments — i.e. using the modified grant date method.

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 (continued)

Amendments to IFRS 2, Share-based payment “Classification and measurement of share-based payment transactions” (continued)

- Classification of share-based payments settled net of tax withholdings

The amendments introduce an exception so that a share-based payment transaction with net settlement feature for withholding an amount to cover the employee’s tax obligations is classified as equity-settled in its entirety when certain conditions are met, even though the entity is then required to transfer cash (or other assets) to the tax authority to settle the employee’s tax obligation.

- Accounting for a modification of a share-based payment from cash-settled to equity-settled

The amendments clarify that on such a modification the liability for the original cash-settled share-based payment is derecognised and the equity-settled share-based payment is measured at its fair value and recognised to the extent that the goods or services have been received up to that date.

Any difference between the carrying amount of the liability derecognised and the amount recognised in equity at the modification date is recognised in profit or loss immediately.

The amendments are expected to have no material impact on financial position and financial performance.

Amendments to IAS 40, Investment property “Transfers of investment property”

The amendments provide guidance on deciding when there is a change in use to transfer a property to or from investment property. The amendments clarify that a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use.

The amendments also re-characterise the list of evidence provided in the standard as a non-exhaustive list of examples i.e. other forms of evidence may support a transfer.

The amendments are expected to have no material impact on financial position and financial performance.

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 (continued)

Annual Improvements to IFRSs 2014–2016 Cycle — Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards and Amendments to IAS 28, Investments in associates and joint ventures

The amendments to IFRS 1 delete the short-term exemptions for first-time adopters that are already out-of-date.

The amendments to IAS 28 clarify that:

- a venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint ventures at fair value through profit or loss on an investment-by-investment basis; and
- a non-investment entity investor may elect to retain the fair value accounting applied by its investment entity associate or joint venture and this election can be made separately for each investment entity associate or joint venture.

The annual improvements are expected to have no material impact on financial position and financial performance.

Amendments to IFRS 4, Insurance contracts “Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts”

The amendments address concerns arising from the different effective dates of IFRS 9 and the new insurance contracts standard, IFRS 17. The amendments introduce the following two approaches:

- Deferral approach — Temporary exemption from IFRS 9
Companies whose activities are predominantly connected with insurance may choose to defer the application of IFRS 9 until 2021 (the effective date of IFRS 17).

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 (continued)

Amendments to IFRS 4, Insurance contracts “Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts” (continued)

- Overlay approach

All companies that issue insurance contracts may choose to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is applied.

The amendments are expected to have no material impact on financial position and financial performance.

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 2018	31 December 2017
Balances with central bank	410,634	434,858
Balances with banks and other financial institutions	49,060	75,257
Financial assets at fair value through profit or loss		
– Debt securities	77,860	69,564
Positive fair value of derivatives	34,362	18,734
Placements with banks and other financial institutions	186,389	143,205
Financial assets held under resale agreements	34,306	52,812
Loans and advances to customers		
– Corporate loans and advances	1,831,196	1,651,808
– Personal loans and advances	1,136,588	1,077,980
Investment securities		
– Debt securities	1,563,095	2,004,406
Long-term receivables	112,122	101,304
Other financial assets	96,093	80,720
Total	5,531,705	5,710,648
Off-balance sheet credit commitments	841,077	819,242
Maximum credit risk exposure	6,372,782	6,529,890

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

As at 30 June 2018, loans and advances to customers were as follows:

	30 June 2018			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Gross balance of loans and advances to customers	2,855,562	125,717	71,379	3,052,658
Less: allowance for impairment loss of loans and advances measured at amortised cost	(23,010)	(22,205)	(39,659)	(84,874)
Net balance	2,832,552	103,512	31,720	2,967,784

a 12-month ECL

Credit risk of loans and advances to customers 12-month ECL was analysed as follows:

	30 June 2018
Corporate loans and advances	1,724,845
Personal loans and advances	1,130,717
Total	2,855,562

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 12-month ECL (continued)

Loans and advances to customers 12-month ECL were analysed by types of collateral as follows:

	30 June 2018
Unsecured loans	711,077
Guaranteed loans	568,963
Loans secured by	
– Tangible assets other than monetary assets	1,187,881
– Monetary assets	387,641
Total	2,855,562

b Lifetime ECL not credit-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 there is significant fluctuations in the value of the collateral or a default event occurs, the Group reassesses the value of the collateral and the effect of the mitigation of credit risk.

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 Lifetime ECL not credit-impaired (continued)

Credit risk of loans and advances to customers lifetime ECL not credit-impaired was analysed as follows:

	30 June 2018
Corporate loans and advances	110,761
Personal loans and advances	14,956
Total	125,717

Loans and advances to customers lifetime ECL not credit-impaired were analysed by types of collateral as follows:

	30 June 2018
Unsecured loans	15,092
Guaranteed loans	53,032
Loans secured by	
– Tangible assets other than monetary assets	35,378
– Monetary assets	22,215
Total	125,717

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 Lifetime ECL credit-impaired

Credit risk of loans and advances to customers lifetime ECL credit-impaired was analysed as follows:

	30 June 2018
Corporate loans and advances	45,333
Personal loans and advances	26,046
Total	71,379
% of total loans and advances	2.34%
Allowance for impairment losses of loans and advances measured at amortised cost	
– Corporate loans and advances	(19,980)
– Personal loans and advances	(19,679)
Total	(39,659)

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 Lifetime ECL credit-impaired (continued)

Loans and advances to customers lifetime ECL credit-impaired were analysed by types of collateral as follows:

	30 June 2018
Unsecured loans	11,494
Guaranteed loans	30,206
Loans secured by	
– Tangible assets other than monetary assets	22,208
– Monetary assets	7,471
Total	71,379
Fair value of collateral held against lifetime ECL credit-impaired loans	13,777

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)

(1) Credit risk (continued)

(ii) Loans and advances to customers (continued)

As at 31 December 2017, loans and advances to customers were as follows:

	31 December 2017
Gross balance of loans and advances to customers	
Neither past due nor impaired	2,712,536
Past due but not impaired	43,882
Impaired	47,889
	<hr/> 2,804,307
Less: allowance for impairment loss	
Neither past due nor impaired	(40,441)
Past due but not impaired	(5,666)
Impaired	(28,412)
	<hr/> (74,519)
Net balance	
Neither past due nor impaired	2,672,095
Past due but not impaired	38,216
Impaired	19,477
	<hr/> 2,729,788

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*

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

	31 December 2017
Corporate loans and advances	1,642,208
Personal loans and advances	1,070,328
<hr/>	
Total	2,712,536

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

	31 December 2017
Unsecured loans	663,807
Guaranteed loans	590,852
Loans secured by	
– Tangible assets other than monetary assets	1,108,371
– Monetary assets	349,506
<hr/>	
Total	2,712,536

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

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.

	31 December 2017				Total
	Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days	
Corporate loans and advances	4,542	4,139	2,357	19,480	30,518
Personal loans and advances	6,167	2,716	3,260	1,221	13,364
Total	10,709	6,855	5,617	20,701	43,882

c Impaired loans

	31 December 2017
Corporate loans and advances	25,754
Personal loans and advances	22,135
Total	47,889
% of total loans and advances	1.71%
Allowance for impairment losses	
— Corporate loans and advances	(13,675)
— Personal loans and advances	(14,737)
Total	(28,412)

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:

	31 December 2017
Unsecured loans	7,263
Guaranteed loans	23,919
Loans secured by	
– Tangible assets other than monetary assets	12,602
– Monetary assets	4,105
<hr/>	
Total	47,889
<hr/>	
Fair value of collateral held against impaired loans	11,070
<hr/>	

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 2018				
	RMB	USD	HKD	Others	Total
Assets:					
Cash and balances with central bank	376,853	40,399	206	289	417,747
Balances with banks and other financial institutions	22,769	16,780	7,720	1,791	49,060
Financial assets at fair value through profit or loss	446,476	36,093	1,347	6,756	490,672
Placements with banks and other financial institutions	165,658	9,374	9,147	2,210	186,389
Financial assets held under resale agreements	34,119	187	—	—	34,306
Loans and advances to customers	2,799,989	113,380	30,154	24,261	2,967,784
Investment securities	1,461,751	93,927	4,917	2,655	1,563,250
Long-term receivables	86,618	25,504	—	—	112,122
Other assets	144,940	49,175	11,587	34,111	239,813
Total assets	5,539,173	384,819	65,078	72,073	6,061,143
Liabilities:					
Borrowings from central bank	334,043	—	—	—	334,043
Deposits from customers	2,937,402	190,927	20,167	9,385	3,157,881
Deposits and placements from banks and other financial institutions	1,145,249	92,790	10,030	12,304	1,260,373
Financial assets sold under repurchase agreements	72,601	12,745	—	302	85,648
Borrowings from banks and other financial institutions	78,827	45,531	2,372	—	126,730
Debt securities issued	529,628	19,792	—	—	549,420
Other liabilities	128,190	8,886	947	1,181	139,204
Total liabilities	5,225,940	370,671	33,516	23,172	5,653,299
Net position	313,233	14,148	31,562	48,901	407,844
Foreign currency derivatives	(493)	(576)	833	—	(236)
Off-balance sheet credit commitments	790,849	40,972	2,036	7,220	841,077

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 2017				Total
	RMB	USD	HKD	Others	
Assets:					
Cash and balances with central bank	402,256	40,293	175	214	442,938
Balances with banks and other financial institutions	35,892	26,228	7,496	5,641	75,257
Financial assets at fair value through profit or loss	43,644	30,286	303	368	74,601
Placements with banks and other financial institutions	119,666	13,934	6,450	3,155	143,205
Financial assets held under resale agreements	52,812	—	—	—	52,812
Loans and advances to customers	2,563,333	111,048	30,527	24,880	2,729,788
Investment securities	1,960,359	88,583	4,169	8,185	2,061,296
Long-term receivables	76,372	24,932	—	—	101,304
Other assets	140,257	54,304	5,421	20,903	220,885
Total assets	5,394,591	389,608	54,541	63,346	5,902,086
Liabilities:					
Borrowings from central bank	335,173	—	—	—	335,173
Deposits from customers	2,750,441	188,439	21,547	5,884	2,966,311
Deposits and placements from banks and other financial institutions	1,163,855	127,023	6,723	18,392	1,315,993
Financial assets sold under repurchase agreements	104,680	2,842	—	—	107,522
Borrowings from banks and other financial institutions	94,080	49,479	3,440	—	146,999
Debt securities issued	484,969	16,958	—	—	501,927
Other liabilities	127,174	9,563	1,556	56	138,349
Total liabilities	5,060,372	394,304	33,266	24,332	5,512,274
Net position	334,219	(4,696)	21,275	39,014	389,812
Foreign currency derivatives	(4,053)	(2,561)	(219)	—	(6,833)
Off-balance sheet credit commitments	765,392	41,628	5,245	6,977	819,242

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 2018					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		410,634	—	—	—	7,113	417,747
Balances with banks and other financial institutions		43,420	4,994	646	—	—	49,060
Financial assets at fair value through profit or loss		293,426	139,264	48,776	3,912	5,294	490,672
Placements with banks and other financial institutions		67,777	108,322	10,290	—	—	186,389
Financial assets held under resale agreements		30,606	3,700	—	—	—	34,306
Loans and advances to customers	(i)	2,282,418	422,005	210,882	52,479	—	2,967,784
Investment securities		215,963	347,193	700,691	299,248	155	1,563,250
Long-term receivables		112,122	—	—	—	—	112,122
Other assets		21,004	148	19	6	218,636	239,813
Total assets		3,477,370	1,025,626	971,304	355,645	231,198	6,061,143
Liabilities:							
Borrowings from central bank		124,207	209,836	—	—	—	334,043
Deposits from customers		2,397,691	611,329	148,663	198	—	3,157,881
Deposits and placements from banks and other financial institutions		1,005,570	252,803	2,000	—	—	1,260,373
Financial assets sold under repurchase agreements		74,159	11,489	—	—	—	85,648
Borrowings from banks and other financial institutions		33,771	60,118	18,568	14,273	—	126,730
Debt securities issued		270,604	100,233	79,690	98,893	—	549,420
Other liabilities		—	1,455	—	—	137,749	139,204
Total liabilities		3,906,002	1,247,263	248,921	113,364	137,749	5,653,299
Total interest sensitivity gap		(428,632)	(221,637)	722,383	242,281	93,449	407,844

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 2017				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		434,858	—	—	—	8,080	442,938
Balances with banks and other financial institutions		71,335	3,922	—	—	—	75,257
Financial assets at fair value through profit or loss		13,394	17,709	40,932	1,503	1,063	74,601
Placements with banks and other financial institutions		46,865	90,626	5,714	—	—	143,205
Financial assets held under resale agreements		50,130	2,682	—	—	—	52,812
Loans and advances to customers	(i)	2,177,749	333,596	176,896	41,547	—	2,729,788
Investment securities		289,294	697,922	689,443	378,999	5,638	2,061,296
Long-term receivables		101,304	—	—	—	—	101,304
Other assets		9,322	6,198	—	—	205,365	220,885
Total assets		3,194,251	1,152,655	912,985	422,049	220,146	5,902,086
Liabilities:							
Borrowings from central bank		23,673	311,500	—	—	—	335,173
Deposits from customers		2,309,543	510,302	146,059	407	—	2,966,311
Deposits and placements from banks and other financial institutions		1,110,312	203,681	2,000	—	—	1,315,993
Financial assets sold under repurchase agreements		93,188	14,287	47	—	—	107,522
Borrowings from banks and other financial institutions		42,377	73,311	18,278	13,033	—	146,999
Debt securities issued		227,727	102,464	72,849	98,887	—	501,927
Other liabilities		—	3,373	—	—	134,976	138,349
Total liabilities		3,806,820	1,218,918	239,233	112,327	134,976	5,512,274
Total interest sensitivity gap		(612,569)	(66,263)	673,752	309,722	85,170	389,812

(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 RMB50,168 million as at 30 June 2018 (31 December 2017: RMB55,977 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 2018						Total
		Indefinite (i)	Repayable on demand	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	
Assets:								
Cash and balances with central bank		362,304	55,443	–	–	–	–	417,747
Balances with banks and other financial institutions		–	37,879	2,213	3,328	4,994	646	49,060
Financial assets at fair value through profit or loss		54,155	–	95,052	148,063	139,164	3,514	490,672
Placements with banks and other financial institutions		–	–	25,705	42,072	108,322	10,290	186,389
Financial assets held under resale agreements		–	–	25,911	4,695	3,700	–	34,306
Loans and advances to customers	(ii)	42,842	8,055	443,331	247,393	1,007,306	698,453	2,967,784
Investment securities								
– financial assets at fair value through other comprehensive income		537	–	12,503	36,730	67,003	185,559	362,836
– financial assets measured at amortised cost		2,418	–	31,266	81,060	284,700	563,772	1,200,414
Long-term receivables		5,662	581	5,869	5,060	26,236	58,669	112,122
Other assets		103,747	27,889	23,065	14,897	37,463	25,951	239,813
Total assets		571,665	129,847	664,915	583,298	1,678,888	1,594,064	6,061,143
Liabilities:								
Borrowings from central bank		–	–	16,085	108,122	209,836	–	334,043
Deposits from customers		–	1,330,665	674,642	392,577	611,329	148,663	3,157,881
Deposits and placements from banks and other financial institutions		–	195,864	385,121	424,585	252,803	2,000	1,260,373
Financial assets sold under repurchase agreements		–	–	49,897	24,262	11,489	–	85,648
Borrowings from banks and other financial institutions		–	–	13,543	20,228	60,118	18,568	126,730
Debt securities issued		–	–	24,631	245,973	100,233	79,690	549,420
Other liabilities		5,363	25,927	32,858	28,558	38,754	5,901	139,204
Total liabilities		5,363	1,552,456	1,196,777	1,244,305	1,284,562	254,822	5,653,299
Net position		566,302	(1,422,609)	(531,862)	(661,007)	394,326	1,339,242	407,844
Notional amount of derivatives		–	–	575,026	655,656	1,105,754	262,378	2,607,789

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 2017						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		408,965	33,973	—	—	—	—	—	442,938
Balances with banks and other financial institutions		—	59,170	6,231	5,934	3,922	—	—	75,257
Financial assets at fair value through profit or loss		5,037	—	3,900	5,448	17,780	40,933	1,503	74,601
Placements with banks and other financial institutions		—	—	28,465	18,400	90,626	5,714	—	143,205
Financial assets held under resale agreements		400	—	40,189	9,541	2,682	—	—	52,812
Loans and advances to customers	(ii)	49,157	8,536	407,013	239,300	928,326	606,502	490,954	2,729,788
Investment securities									
— available-for-sale securities		56,906	—	7,136	17,698	79,602	170,064	47,483	378,889
— held-to-maturity securities		33	—	1,373	2,840	37,631	360,821	305,546	708,244
— loans and receivables		1,334	—	121,382	66,989	577,836	179,371	27,251	974,163
Long-term receivables		4,071	—	5,155	5,408	22,107	54,377	10,186	101,304
Other assets		64,514	21,825	10,982	20,142	42,517	42,330	18,575	220,885
Total assets		590,417	123,504	631,826	391,700	1,803,029	1,460,112	901,498	5,902,086
Liabilities:									
Borrowings from central bank		—	—	—	23,673	311,500	—	—	335,173
Deposits from customers		4,098	1,371,679	582,424	351,743	510,302	146,059	6	2,966,311
Deposits and placements from banks and other financial institutions		—	175,494	411,300	523,518	203,681	2,000	—	1,315,993
Financial assets sold under repurchase agreements		—	—	81,332	11,856	14,334	—	—	107,522
Borrowings from banks and other financial institutions		—	—	16,265	26,112	73,311	18,278	13,033	146,999
Debt securities issued		—	—	63,989	163,738	102,464	72,849	98,887	501,927
Other liabilities		4,373	35,169	43,087	17,368	30,996	4,927	2,429	138,349
Total liabilities		8,471	1,582,342	1,198,397	1,118,008	1,246,588	244,113	114,355	5,512,274
Net position		581,946	(1,458,838)	(566,571)	(726,308)	556,441	1,215,999	787,143	389,812
Notional amount of derivatives		—	—	513,820	456,739	809,650	176,333	10,230	1,966,772

(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 2018					
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years and indefinite	Total
Financial assets:						
Cash and balances with central bank	55,613	—	—	—	363,570	419,183
Balances with banks and other financial institutions	40,140	3,353	5,160	650	—	49,303
Financial assets at fair value through profit or loss	95,378	149,656	144,188	56,121	63,741	509,084
Placements with banks and other financial institutions	25,761	42,481	112,337	11,126	—	191,705
Financial assets held under resale agreements	25,923	4,721	3,836	—	—	34,480
Loans and advances to customers	528,578	274,449	1,099,664	911,520	894,419	3,708,630
Investment securities	57,665	128,661	397,673	855,518	323,982	1,763,499
Long-term receivables	6,549	5,488	28,720	68,363	21,594	130,714
Other financial assets	146,589	7,339	22,059	22,874	6,778	205,639
Total financial assets (expected maturity date)	982,196	616,148	1,813,637	1,926,172	1,674,084	7,012,237
Financial liabilities:						
Borrowings from central bank	16,103	108,689	213,492	—	—	338,284
Deposits from customers	2,001,471	394,484	620,120	160,843	3,416	3,180,334
Deposits and placements from banks and other financial institutions	581,561	427,658	258,006	2,291	—	1,269,516
Financial assets sold under repurchase agreements	49,941	24,365	11,650	—	—	85,956
Borrowings from banks and other financial institutions	13,579	20,545	61,944	20,159	18,768	134,995
Debt securities issued	24,681	247,946	102,618	85,180	136,597	597,022
Other financial liabilities	6,836	11,607	12,377	2,506	4,467	37,793
Total financial liabilities (contractual maturity date)	2,694,172	1,235,294	1,280,207	270,979	163,248	5,643,900

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 2017					Total
	Less than 1 month	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	33,973	—	—	—	408,983	442,956
Balances with banks and other financial institutions	69,427	1,942	3,998	—	—	75,367
Financial assets at fair value through profit or loss	4,062	5,868	19,632	45,855	4,537	79,954
Placements with banks and other financial institutions	28,506	18,526	94,092	6,071	—	147,195
Financial assets held under resale agreements	40,212	10,055	2,790	—	—	53,057
Loans and advances to customers	493,900	263,824	1,005,255	780,893	824,567	3,368,439
Investment securities	131,134	91,274	749,965	812,223	473,839	2,258,435
Long-term receivables	5,454	5,986	24,847	64,485	20,721	121,493
Other financial assets	32,835	20,392	42,754	42,330	83,090	221,401
Total financial assets (expected maturity date)	839,503	417,867	1,943,333	1,751,857	1,815,737	6,768,297
Financial liabilities:						
Borrowings from central bank	—	23,799	318,061	—	—	341,860
Deposits from customers	1,951,759	352,758	518,232	156,276	3,379	2,982,404
Deposits and placements from banks and other financial institutions	586,669	528,343	209,353	2,327	—	1,326,692
Financial assets sold under repurchase agreements	81,833	8,741	14,566	49	—	105,189
Borrowings from banks and other financial institutions	16,301	26,317	75,498	20,033	17,032	155,181
Debt securities issued	64,137	165,104	109,034	74,207	139,256	551,738
Other financial liabilities	17,249	3,161	7,108	2,106	4,999	34,623
Total financial liabilities (contractual maturity date)	2,717,948	1,108,223	1,251,852	254,998	164,666	5,497,687

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 2018					Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Interest rate derivatives	(9)	1	(26)	(321)	(5)	(360)
Credit derivatives	—	—	—	1	—	1
Total	(9)	1	(26)	(320)	(5)	(359)

	31 December 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	(5)	5	(4)	(17)	10	(11)
Credit derivatives	—	—	—	1	—	1
Total	(5)	5	(4)	(16)	10	(10)

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 2018					Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Foreign exchange derivatives						
— Cash outflow	(399,742)	(409,915)	(713,602)	(15,063)	—	(1,538,322)
— Cash inflow	400,067	410,363	712,578	15,078	—	1,538,086
Precious metal derivatives						
— Cash outflow	(48,517)	(17,036)	(66,852)	(6,799)	—	(139,204)
— Cash inflow	48,159	17,028	66,776	6,799	—	138,762
Others						
— Cash outflow	(9,959)	—	(5,766)	—	—	(15,725)
— Cash inflow	9,959	—	5,798	—	—	15,757
Total cash outflow	(458,218)	(426,951)	(786,220)	(21,862)	—	(1,693,251)
Total cash inflow	458,185	427,391	785,152	21,877	—	1,692,605

	31 December 2017					Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	
Foreign exchange derivatives						
— Cash outflow	(434,438)	(324,897)	(505,028)	(9,918)	—	(1,274,281)
— Cash inflow	433,512	321,146	502,733	10,057	—	1,267,448
Precious metal derivatives						
— Cash outflow	(15,286)	(23,037)	(56,960)	—	—	(95,283)
— Cash inflow	12,105	22,128	53,023	—	—	87,256
Others						
— Cash outflow	(36)	—	(18,352)	—	—	(18,388)
— Cash inflow	36	27	18,361	—	—	18,424
Total cash outflow	(449,760)	(347,934)	(580,340)	(9,918)	—	(1,387,952)
Total cash inflow	445,653	343,301	574,117	10,057	—	1,373,128

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 2018			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Bank acceptances	477,075	—	—	477,075
Letters of credit	107,349	296	—	107,645
Guarantees	91,912	46,410	3,884	142,206
Unused credit card commitments	105,807	—	—	105,807
Capital commitments	3,955	13,107	18	17,080
Operating lease commitments	2,979	9,095	1,764	13,838
Irrevocable loan commitments	444	1,709	1,334	3,487
Finance lease commitments	3,394	1,463	—	4,857
Total	792,915	72,080	7,000	871,995

	31 December 2017			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Bank acceptances	461,630	—	—	461,630
Letters of credit	106,766	757	—	107,523
Guarantees	96,631	42,360	2,938	141,929
Unused credit card commitments	100,714	—	—	100,714
Capital commitments	4,515	14,601	—	19,116
Operating lease commitments	3,441	8,219	2,343	14,003
Irrevocable loan commitments	680	2,277	1,329	4,286
Finance lease commitments	3,158	2	—	3,160
Total	777,535	68,216	6,610	852,361

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) Country risk

The Group is exposed to country risk which mainly arises from overseas credit business, bond investment, bill business, interbank financing, financial derivative trading, offshore leasing business, investment banking business, securities investment and establishment of overseas institutions.

Country risk management is included in the comprehensive risk management system of the Group and serves the objective of business strategy of the Bank. The Group manages and controls country risk through a number of tools including risk assessment and rating, limit setting, monitoring, improvement to review procedures, and formulation of policies to accrue country risk reserve.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)

(6) 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.

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 quarterly.

On 1 January 2013, the Group started computing the capital adequacy ratios in accordance with *the Capital Rules for Commercial Banks (Provisional)* 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 Capital Rules for Commercial Banks (Provisional)*. 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 in accordance with Appendix 2 of *the Capital Rules for Commercial Banks (Provisional)*, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the 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.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

3 Financial risk management (continued)

(6) Capital management (continued)

The Group computes the following core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with *the Capital Rules for Commercial Banks (Provisional)* 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)

(6) Capital management (continued)

The Group calculates the core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with *the Capital Rules for Commercial Banks (Provisional)* and relevant requirements promulgated by the CBRC as below:

	30 June 2018	31 December 2017
Core tier-one capital adequacy ratio	8.64%	8.63%
Tier-one capital adequacy ratio	8.87%	8.88%
Capital adequacy ratio	11.86%	11.85%
Components of capital base		
Core tier-one capital:		
Share capital	43,782	36,485
Valid portion of capital reserve	57,457	64,753
Surplus reserve	34,914	34,914
General reserve	74,304	74,168
Retained earnings	178,090	163,420
Valid portion of non-controlling interests	7,152	6,750
Others	(1,397)	(4,662)
Total core tier-one capital	394,302	375,828
Total core tier-one capital	394,302	375,828
Core tier-one capital deductions	(1,228)	(1,204)
Net core tier-one capital	393,074	374,624
Other tier-one capital	10,844	10,790
Net tier-one capital	403,918	385,414
Tier-two capital:		
Valid portion of tier-two capital instruments issued and share premium	98,894	98,887
Surplus provision for loan impairment	35,114	28,300
Valid portion of non-controlling interests	1,826	1,800
Tier-two capital deductions	—	—
Net tier-two capital	135,834	128,987
Net capital base	539,752	514,401
Credit risk-weighted assets	4,191,414	3,998,394
Market risk-weighted assets	81,513	63,112
Operational risk-weighted assets	278,756	278,756
Total risk-weighted assets	4,551,683	4,340,262

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information

The Group conducts business activities in different geographical regions and key 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, retail banking, treasury and others. The Group primarily provides comprehensive financial services through these four business lines.

Segment assets, liabilities, operating gains and losses 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 are allocated to various business segments through the Treasury Department of the Head Office. The Group's internal transfer pricing mechanism uses market interest rates as the benchmark, and determines transfer prices with reference to internal capital pool. The impact of internal trading has been offset when preparing the consolidated statements.

As the management mainly relies on net interest income, net fee and commission income to assess the total income of the Group's segment business, the interest income and expenses, fee and commission income and expenses for all business segments are presented on a net basis.

Segment assets include all tangible assets, intangible assets, other long-term assets and receivables attributable to each segment, deferred tax assets are excluded. Segment liabilities include all liabilities attributable to each segment, deferred income tax liabilities are excluded.

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 the Head Office, branches in Beijing, Taiyuan, Shijiazhuang and Tianjin, Minsheng Financial Leasing Co., Ltd. (“Minsheng Financial Leasing”) and Ningjin Rural Bank.
- (2) Eastern China: including branches in Shanghai, Nanjing, Hangzhou, Jinan, Suzhou, China (Shanghai) Pilot Free Trade Zone, Hefei, Qingdao, Ningbo, Wenzhou, Nanchang and 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, and Tianchang Rural Bank.
- (3) Southern China: including branches in Shenzhen, Guangzhou, Fuzhou, Xiamen, Nanning, Quanzhou, Shantou, Haikou and Minsheng Royal Fund Management Co., Ltd. (“Minsheng Royal Fund”), Anxi Rural Bank, Zhangpu Rural Bank, Xiang’an Rural Bank.
- (4) Others: including branches in Hong Kong, Chengdu, Wuhan, Zhengzhou, Chongqing, Xi’an, Dalian, Changsha, Kunming, Guiyang, Hohhot, Shenyang, Changchun, Lanzhou, Urumqi, Lhasa, Harbin, Xining, Yinchuan, and CMBC International Holdings Ltd. (“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.

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 2018					
	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	Total
Operating income	29,933	17,773	13,554	13,027	—	74,287
External net interest income	7,267	10,109	4,693	11,805	—	33,874
Inter-segment net interest (expense)/income	(13,080)	6,156	7,305	(381)	—	—
Net interest (expense)/income*	(5,813)	16,265	11,998	11,424	—	33,874
Fee and commission income	20,482	1,996	1,911	1,802	—	26,191
Fee and commission expense	(1,250)	(213)	(174)	(227)	—	(1,864)
Net fee and commission income	19,232	1,783	1,737	1,575	—	24,327
Net other income	16,514	(275)	(181)	28	—	16,086
Operating expenses	(7,500)	(4,506)	(2,864)	(4,000)	—	(18,870)
Impairment losses on assets	(10,622)	(2,873)	(1,197)	(4,839)	—	(19,531)
Profit before income tax	11,811	10,394	9,493	4,188	—	35,886
Depreciation and amortisation	1,644	296	172	302	—	2,414
Capital expenditure	1,237	331	84	350	—	2,002
	As at 30 June 2018					
Segment assets	5,008,254	1,278,785	646,404	995,714	(1,897,597)	6,031,560
Investments in associates	—	—	23	—	—	23
Deferred income tax assets						29,583
Total assets						6,061,143
Segment liabilities	(4,686,227)	(1,256,749)	(631,782)	(976,074)	1,897,597	(5,653,235)
Deferred income tax liabilities						(64)
Total liabilities						(5,653,299)
Credit commitments	237,205	301,313	110,159	192,400	—	841,077

* According to the new accounting standard related to financial instruments effective from 1 January 2018, for financial assets measured at fair value through profit or loss, income generated during the holding period is no longer included in interest income.

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					Total
	Northern China	Eastern China	Southern China	Other locations	Inter-segment elimination	
Operating income	36,265	12,789	9,100	11,750	—	69,904
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
Net other income	3,860	92	106	254	—	4,312
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)
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 31 December 2017						
Segment assets	5,083,940	1,295,906	662,721	941,025	(2,110,668)	5,872,924
Investments in associates	—	—	21	—	—	21
Deferred income tax assets						29,162
Total assets						5,902,086
Segment liabilities	(4,781,657)	(1,274,839)	(644,197)	(922,184)	2,110,668	(5,512,209)
Deferred income tax liabilities						(65)
Total liabilities						(5,512,274)
Credit commitments	323,716	236,813	89,067	169,646	—	819,242

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

4 Segment information (continued)

Business segments

- (1) 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 business.
- (2) Retail banking — providing banking products and services for individual clients and small and micro-enterprises. These products and services include savings deposits, credit and debit cards, micro lending, residential mortgage and consumer credit.
- (3) Treasury — including foreign exchange trading, derivatives transactions, money market transactions, precious metal trading. 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.
- (4) Others — the Group's other businesses including the Group's investments and any other business which cannot form a single reportable segment.

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 2018				
	Corporate banking business	Retail banking business	Treasury business	Other business	Total
Operating income	33,432	26,651	12,654	1,550	74,287
Net interest income/(expense)*	26,869	10,602	(3,273)	(324)	33,874
Include: inter-segment net interest income/(expense)	3,339	(11,589)	8,009	241	—
Net fee and commission income	6,254	15,197	1,850	1,026	24,327
Include: inter-segment net fee and commission (expense)/income	(14)	—	—	14	—
Net other income	309	852	14,077	848	16,086
Operating expenses	(8,374)	(6,752)	(3,129)	(615)	(18,870)
Impairment losses on assets	(9,769)	(8,890)	(491)	(381)	(19,531)
Profit before income tax	15,289	11,009	9,034	554	35,886
Depreciation and amortisation	886	701	348	479	2,414
Capital expenditure	475	375	186	966	2,002

	As at 30 June 2018				
Segment assets	1,887,546	1,154,835	2,794,164	195,015	6,031,560
Investments in associates	—	—	—	23	23
Deferred income tax assets					29,583
Total assets					6,061,143
Segment liabilities	(2,597,708)	(646,465)	(2,248,254)	(160,808)	(5,653,235)
Deferred income tax liabilities					(64)
Total liabilities					(5,653,299)
Credit commitments	730,413	105,807	—	4,857	841,077

* According to the new accounting standard related to financial instruments effective from 1 January 2018, for financial assets measured at fair value through profit or loss, income generated during the holding period is no longer included in interest income.

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 2017				Total
	Corporate banking business	Retail banking business	Treasury business	Other business	
Operating income	28,900	24,633	13,780	2,591	69,904
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	—
Net other income	46	27	2,994	1,245	4,312
Operating expenses	(7,616)	(6,517)	(3,655)	(526)	(18,314)
Impairment losses on assets	(7,627)	(8,779)	(397)	(336)	(17,139)
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 31 December 2017				
Segment assets	1,701,522	1,092,556	2,884,691	194,155	5,872,924
Investments in associates	—	—	—	21	21
Deferred income tax assets					29,162
Total assets					5,902,086
Segment liabilities	(2,485,406)	(577,068)	(2,278,437)	(171,298)	(5,512,209)
Deferred income tax liabilities					(65)
Total liabilities					(5,512,274)
Credit commitments	715,368	100,714	—	3,160	819,242

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	
	2018	2017
Interest income arising from:		
– Loans and advances to customers	70,849	60,619
– Corporate loans and advances	41,398	34,212
– Personal loans and advances	26,933	24,198
– Discounted bills	2,518	2,209
– Investment securities	29,565	39,234
– Including: Financial assets at fair value through profit or loss	–	1,159
– Placements with banks and other financial institutions	4,339	3,273
– Long-term receivables	3,429	2,984
– Balances with central bank	2,931	3,515
– Financial assets held under resale agreements	2,295	1,446
– Balances with banks and other financial institutions	718	2,062
Subtotal	114,126	113,133
Interest expense arising from:		
– Deposits from customers	(29,343)	(26,206)
– Deposits and placements from banks and other financial institutions	(27,831)	(27,196)
– Debt securities issued	(12,168)	(8,575)
– Borrowings from central bank	(5,448)	(4,705)
– Borrowings from banks and other financial institutions and others	(3,477)	(2,634)
– Financial assets sold under repurchase agreements	(1,985)	(2,702)
Subtotal	(80,252)	(72,018)
Net interest income	33,874	41,115
Of which:		
Interest income from impaired financial assets identified	442	446

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	
	2018	2017
Fee and commission income		
– Bank card services	12,869	10,121
– Agency services	5,005	6,330
– Trust and other fiduciary services	4,166	7,097
– Settlement services	1,755	1,603
– Credit commitments	1,526	1,607
– Others	870	617
Subtotal	26,191	27,375
Fee and commission expense	(1,864)	(2,898)
Net fee and commission income	24,327	24,477

7 Net trading gain

	Six months ended 30 June	
	2018	2017
Gain on interest rate instruments	14,612	230
(Loss)/gain on precious metals and other products	(2,582)	1,063
Gain on exchange rate instruments	2,049	133
Total	14,079	1,426

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	
	2018	2017
Net gain arising from disposals of discounted bills	168	27
Net gain arising from disposals of securities	773	1,658
Total	941	1,685

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	
	2018	2017
Loans and advances to customers	19,177	16,330
Investment securities		
— financial assets measured at amortised cost	492	—
— financial assets at fair value through other comprehensive income	(90)	—
— loans and receivables	—	345
Long-term receivables	292	242
Credit loss of off-balance-sheet assets	(309)	(156)
Others	(31)	378
Total	19,531	17,139

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

10 Operating expenses

	Six months ended 30 June	
	2018	2017
Staff costs, including directors' emoluments		
– Salaries, bonuses, allowances and subsidies payables	8,150	7,715
– Post-employment benefits-defined contribution plans	1,093	1,064
Rental and property management expenses	2,003	2,122
Depreciation and amortisation	1,550	1,652
Tax and surcharges	781	753
Office expenses	483	689
Business expenses and others	4,810	4,319
Total	18,870	18,314

Auditor's remuneration included in the operating expenses of the Group for the six months ended 30 June 2018 was RMB5 million (for the six months ended 30 June 2017: RMB5 million).

11 Income tax expense

	Six months ended 30 June	
	2018	2017
Current tax for the period	3,829	7,425
Adjustment for prior periods	(153)	(126)
Subtotal	3,676	7,299
Changes in deferred tax (Note 23)	2,357	(1,462)
Total	6,033	5,837

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	
		2018	2017
Profit before income tax		35,886	34,451
Income tax at the tax rate of 25%		8,972	8,613
Effect of non-taxable income	(i)	(3,142)	(2,775)
Effect of non-deductible expenses		300	125
Others		(97)	(126)
Income tax expense		6,033	5,837

- (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 six months ended 30 June 2018 (for the six months ended 30 June 2017: 25%). The applicable income tax rate for Hong Kong branch is 16.5% (for the six months ended 30 June 2017: 16.5%).

12 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary 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 ordinary 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 2018 and the first half of 2017.

	Six months ended 30 June	
	2018	2017 (Restated)
Net profit attributable to ordinary equity shareholders of the Bank	29,618	28,088
Weighted average number of ordinary shares in issue (in millions)	43,782	43,782
Basic/Diluted earnings per share (in RMB)	0.68	0.64

In 2018, the Bank implemented the 2017 equity distribution plan to convert capital reserve to share capital. Therefore, the earnings per share for each reporting period are recalculated according to the adjusted number of shares.

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 2018	31 December 2017
Cash	7,113	8,080
Balances with central bank		
Statutory deposit reserves	361,103	407,340
Surplus deposit reserves	48,330	25,893
Fiscal deposits and others	1,201	1,625
Subtotal	410,634	434,858
Total	417,747	442,938

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 2018 the statutory deposit reserve rate applicable to domestic branches of the Bank for RMB deposits is 12.5% (31 December 2017: 15.0%) and the reserve rate for foreign currency deposits is 5.0% (31 December 2017: 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 2018	31 December 2017
Mainland China		
— Banks	20,400	41,682
— Other financial institutions	6,652	7,644
Subtotal	27,052	49,326
Overseas		
— Banks	21,634	25,205
— Other financial institutions	429	726
Subtotal	22,063	25,931
Less: Allowance for impairment losses	(55)	—
Total	49,060	75,257

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 2018	31 December 2017
Held for trading purpose		
Debt securities		
Government		
— Listed outside Hong Kong	1,560	1,565
Policy banks		
— Listed in Hong Kong	—	65
— Listed outside Hong Kong	2,003	1,064
Banking and non-banking financial institution bonds		
— Listed in Hong Kong	3,766	8,479
— Listed outside Hong Kong	5,864	10,695
— Unlisted	5,903	—
Other corporates		
— Listed in Hong Kong	17,279	10,791
— Listed outside Hong Kong	37,789	29,630
— Unlisted	3,489	—
Equity investments		
— Listed in Hong Kong	3,978	532
— Unlisted	—	531
Investment funds		
— Unlisted	43,757	1,314
Subtotal	125,388	64,666
Designated at fair value through profit or loss		
Debt securities		
Banking and non-banking financial institution bonds		
— Unlisted	—	3,633
Other corporates		
— Unlisted	—	3,642
Investment funds		
— Unlisted	—	2,660
Subtotal	—	9,935

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 (continued)

	30 June 2018	31 December 2017
Other financial assets at fair value through profit or loss		
Debt securities		
Other corporates		
— Unlisted	207	—
Investment funds		
— Unlisted	4,225	—
Equity investments		
— Listed in Hong Kong	108	—
— Listed outside Hong Kong	1,841	—
— Unlisted	3,345	—
Asset management plans		
— Unlisted	142,664	—
Wealth management products		
— Unlisted	212,894	—
Subtotal	365,284	—
Total	490,672	74,601

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 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	1,387,429	19,522	(18,565)
Interest rate swaps	903,273	1,912	(553)
Precious metal derivatives	143,483	10,672	(1,561)
Currency options	123,495	1,056	(979)
Currency forwards	27,671	257	(527)
Commodity options	15,979	881	(135)
Extension options	5,000	—	—
Credit derivatives	463	3	—
Others	996	59	(16)
Total		34,362	(22,336)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

16 Derivatives (continued)

	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swaps	1,129,297	10,304	(14,952)
Interest rate swaps	596,828	1,050	(315)
Precious metal derivatives	93,805	5,540	(868)
Currency options	72,787	375	(307)
Currency forwards	51,421	619	(1,062)
Commodity options	17,199	789	(554)
Extension options	5,000	—	—
Credit derivatives	131	4	—
Others	304	53	(18)
Total		18,734	(18,076)

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 2018		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swap	2,530	48	—
Total		48	—

	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Currency swap	3,371	109	—
Total		109	—

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 2018	31 December 2017
Exchange rate contracts	8,733	4,994
Precious metal contracts	9,759	3,818
Commodity option contracts	2,479	2,510
Interest rate contracts	1,304	585
Other derivative contracts	117	45
Total	22,392	11,952

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 2018	31 December 2017
Mainland China		
– Banks	4,768	6,060
– Other financial institutions	163,382	112,497
Subtotal	168,150	118,557
Overseas		
– Banks	15,141	21,295
– Other financial institutions	3,249	3,448
Subtotal	18,390	24,743
Less: Allowance for impairment losses	(151)	(95)
Total	186,389	143,205

18 Financial assets held under resale agreements

	30 June 2018	31 December 2017
Bonds	20,127	46,751
Discounted bills	7,509	704
Others*	6,675	5,357
Gross balance	34,311	52,812
Less: allowance for impairment losses	(5)	—
Net balance	34,306	52,812

* 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 2018	31 December 2017
Measured at amortised cost:		
Corporate loans and advances		
– Corporate loans	1,780,137	1,615,830
– Discounted bills	–	82,650
Subtotal	1,780,137	1,698,480
Personal loans and advances		
– Residential mortgage	339,527	350,986
– Micro lending*	406,604	373,262
– Credit cards	349,608	294,019
– Others	75,980	87,560
Subtotal	1,171,719	1,105,827
Less: allowance for impairment losses of loans and advances to customers measured at amortised cost	(84,874)	(74,519)
Measured at fair value through other comprehensive income:		
Corporate loans and advances		
– Corporate loans	3,273	–
– Discounted bills	97,529	–
Subtotal	100,802	–
Net balance	2,967,784	2,729,788

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

As at 30 June 2018, the Group's allowance for impairment losses on loans and advances to customers at fair value through other comprehensive income was RMB817 million.

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 industries

	30 June 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Corporate loans and advances				
Manufacturing	338,025	11.07	335,206	11.95
Real estate	328,905	10.77	256,127	9.13
Wholesale and retail	208,598	6.83	221,770	7.91
Leasing and commercial services	350,957	11.50	275,289	9.82
Mining	125,539	4.11	125,949	4.49
Financial services	95,743	3.14	103,672	3.70
Transportation, storage and postal service	82,943	2.72	81,176	2.89
Water, environment and public utilities management	99,717	3.27	89,079	3.18
Construction	92,559	3.03	75,924	2.71
Production and supply of electric power, heat, gas and water	58,930	1.93	52,021	1.86
Public administration, social security and social organisations	10,255	0.34	10,284	0.37
Agriculture, forestry, animal husbandry and fishery	14,406	0.47	10,788	0.38
Accommodation and catering	10,888	0.36	7,494	0.27
Others	63,474	2.08	53,701	1.91
Subtotal	1,880,939	61.62	1,698,480	60.57
Personal loans and advances	1,171,719	38.38	1,105,827	39.43
Total	3,052,658	100.00	2,804,307	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)

(2) Loans and advances to customers analysed by types of collateral

	30 June 2018		31 December 2017	
	Amount	(%)	Amount	(%)
Unsecured loans	737,663	24.16	678,023	24.18
Guaranteed loans	652,201	21.37	632,828	22.57
Loans secured by				
– Tangible assets other than monetary assets	1,245,467	40.80	1,134,722	40.46
– Monetary assets	417,327	13.67	358,734	12.79
Total	3,052,658	100.00	2,804,307	100.00

(3) Overdue loans analysed by overdue period

	30 June 2018				
	Less than 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Unsecured loans	5,749	7,532	3,618	119	17,018
Guaranteed loans	12,875	12,849	13,195	2,833	41,752
Loans secured by					
– Tangible assets other than monetary assets	8,657	7,814	10,656	2,997	30,124
– Monetary assets	776	2,435	3,055	1,305	7,571
Total	28,057	30,630	30,524	7,254	96,465
% of total loans and advances	0.92%	1.00%	1.00%	0.24%	3.16%

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)

(3) Overdue loans analysed by overdue period (continued)

	31 December 2017				
	Less than 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Unsecured loans	5,731	5,287	3,098	69	14,185
Guaranteed loans	11,260	12,768	15,207	1,294	40,529
Loans secured by					
— Tangible assets other than monetary assets	4,860	6,846	12,613	1,562	25,881
— Monetary assets	2,204	1,842	3,970	506	8,522
Total	24,055	26,743	34,888	3,431	89,117
% of total loans and advances	0.87%	0.95%	1.24%	0.12%	3.18%

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

(4) Changes in allowance for impairment losses

As at 30 June 2018, changes in allowance for impairment losses of loans and advances to customers are as follows:

- (i) Changes in allowance for impairment losses of loans and advances to customers measured at amortised cost are as follows:

	Allowance for impairment losses
As at 31 December 2017	(74,519)
Changes in accounting policies	(10,631)
As at 1 January 2018	(85,150)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)

(4) Changes in allowance for impairment losses (continued)

- (i) Changes in allowance for impairment losses of loans and advances to customers measured at amortised cost are as follows: (continued)

	Six months ended 30 June 2018			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Balance at 1 January 2018	(23,398)	(25,111)	(36,641)	(85,150)
Transfer:				
– to 12-month ECL	(3,379)	3,256	123	–
– to lifetime ECL not credit-impaired	656	(845)	189	–
– to lifetime ECL credit-impaired	260	3,913	(4,173)	–
Reversal/(charge)	2,753	(3,418)	(18,355)	(19,020)
Write-offs	–	–	19,712	19,712
Recoveries of amounts previously written off	–	–	(956)	(956)
Accreted interest on impaired loans	–	–	442	442
Exchange difference and other movements	98	–	–	98
Balance at 30 June 2018	(23,010)	(22,205)	(39,659)	(84,874)

- (ii) Changes in allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income are as follows:

	Six months ended 30 June 2018			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Balance at 1 January 2018	(295)	–	(365)	(660)
Charge	(157)	–	–	(157)
Balance at 30 June 2018	(452)	–	(365)	(817)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

19 Loans and advances to customers (continued)

(4) Changes in allowance for impairment losses (continued)

- (ii) Changes in allowance for impairment losses of loans and advances to customers at fair value through other comprehensive income are as follows: (continued)

As at 30 June 2017, changes in allowance for impairment losses of loans and advances to customers are as follows:

	Year ended 31 December 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 year	(10,604)	(6,904)	(16,673)	(34,181)
Release during the year	1,901	100	—	2,001
Reclassification	(2,055)	2,055	—	—
Transfer out	2,391	—	1,968	4,359
Write-offs	6,362	—	12,077	18,439
Recoveries	(1,015)	—	(758)	(1,773)
Unwinding of discount	487	—	345	832
Exchange difference	—	198	—	198
At 31 December	(13,675)	(32,997)	(27,847)	(74,519)

20 Investment securities

	Note	30 June 2018	31 December 2017
Financial assets at fair value through other comprehensive income	(1)	362,836	—
Available-for-sale securities	(2)	—	378,889
Financial assets measured at amortised cost	(3)	1,200,414	—
Held-to-maturity securities	(4)	—	708,244
Loans and receivables	(5)	—	974,163
Total		1,563,250	2,061,296
Analysed as follows:			
— Listed in Hong Kong		42,626	39,666
— Listed outside Hong Kong		859,847	972,845
— Unlisted		660,777	1,048,785
Total		1,563,250	2,061,296

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)

(1) Financial assets at fair value through other comprehensive income

	30 June 2018
Debt securities	
Government	
— listed in Hong Kong	860
— listed outside Hong Kong	81,798
— unlisted	1,140
Policy banks	
— listed in Hong Kong	101
— listed outside Hong Kong	34,732
Banking and non-banking financial institution	
— listed in Hong Kong	24,628
— listed outside Hong Kong	113,567
— unlisted	30,794
Other corporates	
— listed in Hong Kong	10,135
— listed outside Hong Kong	50,180
— unlisted	14,746
Subtotal	362,681
Equity investments (Note (i))	
— unlisted	155
Total	362,836

- (i) The Group designates non-trading equity investments as financial assets at fair value through other comprehensive income. During the reporting period, dividend income of RMB9 million recognised for such equity investments was included in the profit or loss. The Group did not dispose of any such equity investment, nor transfer any cumulative gain or loss from other comprehensive income to retained earnings during the reporting period.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)

(1) Financial assets at fair value through other comprehensive income (continued)

- (ii) Changes in allowance for impairment losses of financial assets at fair value through other comprehensive income are as follows:

	Six months ended 30 June 2018			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Balance at 1 January 2018	(675)	—	(72)	(747)
Reversal	56	—	34	90
Exchange difference and other movements	(2)	—	—	(2)
Balance at 30 June 2018	(621)	—	(38)	(659)

Allowance for impairment losses on financial assets at fair value through other comprehensive income is recognised in other comprehensive income, and any impairment loss or gain is recognised in the profit or loss without decreasing the carrying amount of financial assets presented in the balance sheet. As at 30 June 2018, the financial assets at fair value through other comprehensive income included credit-impaired financial assets whose carrying amount was RMB12 million, with impairment provision of RMB7 million recognised during the current period.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)

(2) Available-for-sale securities

	31 December 2017
Debt securities at fair value	
Government	
— listed in Hong Kong	18
— listed outside Hong Kong	93,019
— unlisted	835
Policy banks	
— listed in Hong Kong	337
— listed outside Hong Kong	34,183
Banking and non-banking financial institution	
— listed in Hong Kong	25,073
— listed outside Hong Kong	91,701
— unlisted	26,445
Other corporates	
— listed in Hong Kong	7,613
— listed outside Hong Kong	39,409
— unlisted	3,861
Less: allowance for impairment losses (Note (i))	(495)
<hr/>	
Subtotal	321,999
<hr/>	
Equity investments	
— listed in Hong Kong	62
— listed outside Hong Kong	1,732
— unlisted	4,776
Less: allowance for impairment losses (Note (i))	(932)
<hr/>	
Subtotal	5,638
<hr/>	
Investment Funds	
— unlisted	51,252
<hr/>	
Total	378,889
<hr/>	

The Group did not reclassify any investment securities during the year ended 31 December 2017.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)

(2) Available-for-sale securities (continued)

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

	Year ended 31 December 2017		Total
	Available-for-sale debt instruments	Available-for-sale equity instruments	
At 1 January 2017	(394)	(564)	(958)
Charge for the year	(148)	(368)	(516)
Release during the year	28	—	28
Exchange difference	19	—	19
At 31 December 2017	(495)	(932)	(1,427)

(3) Financial assets measured at amortised cost

	30 June 2018
Bond	
Government	
— listed outside Hong Kong	522,708
— unlisted	212,369
Policy banks	
— listed outside Hong Kong	17,442
— unlisted	—
Banking and non-banking financial institution	
— listed in Hong Kong	4,067
— listed outside Hong Kong	28,119
— unlisted	131,205
Other corporates	
— listed in Hong Kong	2,878
— listed outside Hong Kong	11,507
— unlisted	5,873
Asset management plans	176,087
Trust beneficiary rights	91,005
Total	1,203,260
Less: allowance for impairment losses (Note (i))	(2,846)
Net value	1,200,414

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

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)

(3) Financial assets measured at amortised cost (continued)

- (i) Changes in allowance for impairment losses of financial assets measured at amortised cost are as follows:

	Six months ended 30 June 2018			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Balance at 1 January 2018	(1,837)	(50)	(466)	(2,353)
Charge	(195)	—	(297)	(492)
Exchange difference	(1)	—	—	(1)
Balance at 30 June 2018	(2,033)	(50)	(763)	(2,846)

(4) Held-to-maturity securities

	31 December 2017
Government	
— listed outside Hong Kong	651,129
Policy banks	
— listed outside Hong Kong	19,760
Banking and non-banking financial institution	
— listed in Hong Kong	4,405
— listed outside Hong Kong	27,468
— unlisted	2,353
Other corporates	
— listed in Hong Kong	2,171
— listed outside Hong Kong	874
— unlisted	146
Less: allowance for impairment losses (Note (i))	(62)
Total	708,244
Fair value of securities	679,333

During the year of 2017, the Group reclassified held-to-maturity debt securities with a total par value of RMB13,395 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.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)

(4) Held-to-maturity securities (continued)

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

	Year ended 31 December 2017
At 1 January 2017	(82)
Release during the year	20
At 31 December 2017	(62)

(5) Loans and receivables

	31 December 2017
Bond	
Government	
– unlisted	60,788
Policy banks	
– listed outside Hong Kong	500
Banking and non-banking financial institution	
– listed outside Hong Kong	6,793
– unlisted	129,567
Other corporates	
– listed outside Hong Kong	6,835
– unlisted	25,035
Asset management plans	670,774
Trust beneficiary rights	76,137
Total	976,429
Less: allowance for impairment losses (Note (i))	(2,266)
Net value	974,163

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

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

20 Investment securities (continued)

(5) Loans and receivables (continued)

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

	Year ended 31 December 2017
At 1 January 2017	(1,688)
Charge for the year	(772)
Release during the year	138
Write-offs	52
Exchange difference	4
<hr/>	
At 31 December 2017	(2,266)

21 Long-term receivables

	Note	30 June 2018	31 December 2017
Finance lease receivables		134,304	121,493
Less: unearned finance lease income		(18,082)	(16,763)
<hr/>			
Present value of minimum finance lease receivables		116,222	104,730
Less: allowance for impairment losses	(i)	(4,100)	(3,426)
<hr/>			
Net balance		112,122	101,304

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Long-term receivables (continued)

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

	30 June 2018			31 December 2017		
	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	41,599	(2,925)	38,674	36,287	(2,925)	33,362
1 year to 2 years	32,056	(3,401)	28,655	28,546	(3,032)	25,514
2 years to 3 years	20,063	(2,835)	17,228	19,964	(2,548)	17,416
3 years to 5 years	17,662	(3,460)	14,202	15,975	(3,024)	12,951
More than 5 years	15,400	(4,829)	10,571	15,023	(4,724)	10,299
Indefinite*	7,524	(632)	6,892	5,698	(510)	5,188
	134,304	(18,082)	116,222	121,493	(16,763)	104,730

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

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

	Allowance for impairment losses
As at 31 December 2017	(3,426)
Changes in accounting policies	(385)
As at 1 January 2018	(3,811)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

21 Long-term receivables (continued)

	Six months ended 30 June 2018			Total
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	
Balance at 1 January 2018	(684)	(1,815)	(1,312)	(3,811)
Transfer:				
– to 12-month ECL	(72)	72	–	–
– to lifetime ECL not credit-impaired	11	(11)	–	–
– to lifetime ECL credit-impaired	8	441	(449)	–
(Charge)/reversal	(20)	(279)	7	(292)
Exchange difference and other movements	3	–	–	3
Balance at 30 June 2018	(754)	(1,592)	(1,754)	(4,100)

	Year ended 31 December 2017
At 1 January 2017	(3,441)
Charge for the year	(449)
Transfer out	216
Write-offs	248
At 31 December 2017	(3,426)

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 and Others	Motor vehicles	Operating lease fixed assets	Construction in progress	Total
Original cost							
Balance at 1 January 2017	14,289	9,473	8,715	524	25,834	4,626	63,461
Increase	199	540	516	22	6,697	1,006	8,980
CIP transfers	750	—	—	—	—	(750)	—
Decrease	—	(4,277)	(466)	(24)	(2,874)	(2)	(7,643)
Balance at 31 December 2017	15,238	5,736	8,765	522	29,657	4,880	64,798
Increase	33	136	153	7	571	563	1,463
CIP transfers	561	—	—	—	—	(561)	—
Decrease	(12)	(221)	(7)	(9)	(1,051)	—	(1,300)
Balance at 30 June 2018	15,820	5,651	8,911	520	29,177	4,882	64,961
Accumulated depreciation							
Balance at 1 January 2017	(2,782)	(6,556)	(5,244)	(358)	(2,161)	—	(17,101)
Increase	(444)	(1,089)	(1,251)	(56)	(1,320)	—	(4,160)
Decrease	—	4,260	408	23	316	—	5,007
Balance at 31 December 2017	(3,226)	(3,385)	(6,087)	(391)	(3,165)	—	(16,254)
Increase	(254)	(473)	(542)	(24)	(858)	—	(2,151)
Decrease	—	217	7	8	124	—	356
Balance at 30 June 2018	(3,480)	(3,641)	(6,622)	(407)	(3,899)	—	(18,049)
Impairment losses							
Balance at 1 January 2017	—	—	—	—	(170)	—	(170)
Increase	—	—	—	—	(36)	—	(36)
Balance at 31 December 2017	—	—	—	—	(206)	—	(206)
Balance at 30 June 2018	—	—	—	—	(206)	—	(206)
Net value							
Balance at 31 December 2017	12,012	2,351	2,678	131	26,286	4,880	48,338
Balance at 30 June 2018	12,340	2,010	2,289	113	25,072	4,882	46,706

As at 30 June 2018 and 31 December 2017, 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 2018	31 December 2017
Held in mainland China		
on medium-term lease (10-50 years)	12,244	11,853
on short-term lease (less than 10 years)	2,106	2,510
Total	14,350	14,363

As at 30 June 2018, there were still certain properties and buildings, with a carrying value of RMB404 million (31 December 2017: RMB1,016 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 2018		31 December 2017	
	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	28,952	115,808	24,686	98,744
Employee benefits payable	2,300	9,200	2,858	11,432
Fair value losses of				
— derivatives	5,579	22,316	4,515	18,060
— available-for-sale securities	—	—	1,635	6,543
— financial assets at fair value through other comprehensive income	604	2,416	—	—
— financial assets at fair value through profit or loss	1,122	4,488	107	427
Others	117	468	108	432
Subtotal	38,674	154,696	33,909	135,638
Deferred income tax liabilities				
Fair value gains of				
— derivatives	(8,570)	(34,280)	(4,647)	(18,586)
— available-for-sale securities	—	—	(79)	(316)
— financial assets at fair value through other comprehensive income	(188)	(752)	—	—
— financial assets at fair value through profit or loss	(333)	(1,332)	(21)	(84)
Others	(64)	(256)	(65)	(260)
Subtotal	(9,155)	(36,620)	(4,812)	(19,246)
Deferred income tax assets, net	29,519	118,076	29,097	116,392

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 and others	Gross deferred income tax liabilities
At 31 December 2017	24,686	6,257	2,966	33,909	(4,812)	(4,812)
Changes in accounting policies	3,158	370	—	3,528	(126)	(126)
At 1 January 2018	27,844	6,627	2,966	37,437	(4,938)	(4,938)
Recognised in profit or loss	1,108	1,191	(549)	1,750	(4,107)	(4,107)
Recognised in other comprehensive income	—	(513)	—	(513)	(110)	(110)
At 30 June 2018	28,952	7,305	2,417	38,674	(9,155)	(9,155)
At 1 January 2017	19,760	3,089	2,555	25,404	(2,038)	(2,038)
Recognised in profit or loss	4,926	2,470	411	7,807	(2,793)	(2,793)
Recognised in other comprehensive income	—	698	—	698	19	19
At 31 December 2017	24,686	6,257	2,966	33,909	(4,812)	(4,812)

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

	30 June 2018	31 December 2017
Deferred income tax assets	—	—
Deferred income tax liabilities	(9,071)	(4,747)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

23 Deferred income tax assets and liabilities (continued)

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

	30 June 2018		31 December 2017	
	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	29,583	118,332	29,162	116,652
Deferred income tax liabilities	(64)	(256)	(65)	(260)

24 Investment in subsidiaries

	30 June 2018	31 December 2017
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

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

24 Investment in subsidiaries (continued)

	30 June 2018	31 December 2017
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

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 (i)	Sichuan China	Commercial bank	RMB55 million	Limited company	36.36	36.36
Cixi Rural Bank (i)	Zhejiang China	Commercial bank	RMB100 million	Limited company	35	35
Songjiang Rural Bank (i)	Shanghai China	Commercial bank	RMB150 million	Limited company	35	35
Qijiang Rural Bank (ii)	Chongqing China	Commercial bank	RMB60 million	Limited company	48.73	51.27
Tongnan Rural Bank (i)	Chongqing China	Commercial bank	RMB50 million	Limited company	50	50
Meihekou Rural Bank	Jilin China	Commercial bank	RMB50 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
Ziyang Rural Bank	Sichuan China	Commercial bank	RMB80 million	Limited company	51	51
Jiangxia Rural Bank	Hubei China	Commercial bank	RMB86 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	RMB52.4 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
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

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
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.

- (i) 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.
- (ii) In June 2018, after the capital increase made by the natural person investor of Qijiang Rural Bank, the shareholding percentage, also the voting rights ratio of the Bank was 48.73%, the voting rights ratio of other legal person shareholders was 44.83%, and the voting rights ratio of natural person shareholders was 6.44%. Some natural person shareholders and the Bank signed a concerted action agreement, stipulating that the two parties should take "concerted action" in the general meeting of shareholders. The voting right ratio of the Bank plus that of the natural person shareholders was 51.27%. Therefore, the Bank acquires control over Qijiang Rural Bank and classifies the investment in Qijiang Rural Bank as investment in a subsidiary.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

25 Other assets

	Note	30 June 2018			31 December 2017		
		Gross balance	Allowance for impairment losses	Carrying amount	Gross balance	Allowance for impairment losses	Carrying amount
Interest receivable	(1)	41,701	—	41,701	39,664	—	39,664
Items in the process of clearance and settlement		23,808	(13)	23,795	13,436	(65)	13,371
Repossessed assets	(3)	11,287	(86)	11,201	11,099	(85)	11,014
Prepayments for leased assets	(2)	10,449	(73)	10,376	10,646	(173)	10,473
Investment properties		7,047	—	7,047	7,008	—	7,008
Commission receivable		6,967	—	6,967	4,797	(9)	4,788
Land use right		3,898	—	3,898	3,958	—	3,958
Claims and legal fees recoverable		2,816	(1,051)	1,765	2,624	(863)	1,761
Prepayment		1,275	—	1,275	795	—	795
Intangible assets	(4)	974	—	974	957	—	957
Margin accounts receivable		923	—	923	908	—	908
Goodwill	(5)	200	(6)	194	198	(6)	192
Long-term deferred expenses		119	(18)	101	137	—	137
Others		9,293	(2)	9,291	8,768	—	8,768
Total		120,757	(1,249)	119,508	104,995	(1,201)	103,794

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 2018	31 December 2017
Loans and advances to customers	22,989	21,391
Debt and other securities	17,469	16,901
Others	1,243	1,372
Total	41,701	39,664

(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 RMB118 million during the period ended 30 June 2018 (31 December 2017: RMB1,176 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

25 Other assets (continued)

(4) Intangible assets

	Six months ended 30 June 2018	Year ended 31 December 2017
Cost		
Balance at 1 January	3,594	3,215
Increase	220	389
Decrease	—	(10)
Balance at 30 June/31 December	3,814	3,594
Accumulated amortisation		
Balance at 1 January	(2,637)	(2,267)
Increase	(203)	(377)
Decrease	—	7
Balance at 30 June/31 December	(2,840)	(2,637)
Net value		
Balance at 1 January	957	948
Balance at 30 June/31 December	974	957

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

25 Other assets (continued)

(5) Goodwill

	30 June 2018	31 December 2017
At 1 January	198	6
Acquisition of subsidiaries	—	192
Exchange difference	2	—
<hr/>		
Gross amount	200	198
Impairment	(6)	(6)
<hr/>		
Net amount	194	192

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.

The allowance appropriated for the impairment of goodwill was RMB6 million as at 30 June 2018 (31 December 2017: RMB6 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

26 Deposits from customers

	30 June 2018	31 December 2017
Demand deposits		
– Corporate deposits	1,114,940	1,187,367
– Personal deposits	201,674	182,652
Time deposits (including call and notice deposits)		
– Corporate deposits	1,465,167	1,267,880
– Personal deposits	360,718	309,356
Certificates of deposit	10,378	12,069
Outward remittance and remittance payables	5,004	6,987
Total	3,157,881	2,966,311

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

	30 June 2018	31 December 2017
Pledged deposits for bank acceptances	117,583	122,253
Pledged deposits for letters of credit and guarantees	21,327	23,596
Other pledged deposits	76,133	82,008
Total	215,043	227,857

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 2018	31 December 2017
Mainland China		
– Banks	291,682	322,893
– Other financial institutions	869,109	887,264
Overseas		
– Banks	78,746	88,502
– Other financial institutions	20,836	17,334
Total	1,260,373	1,315,993

28 Financial assets sold under repurchase agreements

	30 June 2018	31 December 2017
Investment securities	47,920	60,539
Discounted bills	37,728	46,930
Including: bills rediscounted	18,196	16,273
Long-term receivables	–	53
Total	85,648	107,522

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 2018	31 December 2017
Credit borrowings	105,074	123,419
Secured borrowings		
– by tangible assets other than monetary assets	21,656	23,580
Total	126,730	146,999

As at 30 June 2018, the secured borrowings of RMB21,656 million (31 December 2017: RMB23,580 million) consisted of property and equipment of RMB15,832 million (31 December 2017: RMB10,701 million) and the mortgaged assets under finance lease receivables of RMB15,364 million (31 December 2017: RMB14,364 million) as collateral; there was no other assets as collateral (31 December 2017: Nil). There was no remaining credit limit under such secured borrowings (31 December 2017: Nil).

30 Provisions

	30 June 2018	31 December 2017
Credit loss of off-balance-sheet assets	1,924	809

As at 30 June 2018, movements of credit loss of off-balance-sheet assets are as follows:

	Six months ended 30 June 2018			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total
Balance at 1 January 2018	1,791	442	–	2,233
Transfer:				
– to 12-month ECL	3	(3)	–	–
– to lifetime ECL not credit-impaired	(2)	2	–	–
– to lifetime ECL credit-impaired	–	(1)	1	–
Charge/(reversal)	29	(343)	5	(309)
Balance at 30 June 2018	1,821	97	6	1,924

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Debt securities issued

	Note	30 June 2018	31 December 2017
Certificates of interbank deposit		375,783	335,131
Tier-two capital bonds	(1)	89,905	89,899
Financial bonds	(2)	54,951	50,951
Medium-term notes	(3)	19,792	16,958
Hybrid capital bonds	(4)	4,994	4,993
Subordinated bonds	(5)	3,995	3,995
Total		549,420	501,927

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

(1) Tier-two capital bonds

	Note	30 June 2018	31 December 2017
RMB20.0 billion — 10-year fixed rate tier-two capital bonds 2014	(i)	19,982	19,982
RMB20.0 billion — 10-year fixed rate tier-two capital bonds 2015	(ii)	19,982	19,981
RMB20.0 billion — 10-year fixed rate tier-two capital bonds 2016	(iii)	19,977	19,974
RMB15.0 billion — 10-year fixed rate tier-two capital bonds 2017 1 st tranche	(iv)	14,982	14,981
RMB15.0 billion — 10-year fixed rate tier-two capital bonds 2017 2 nd tranche	(v)	14,982	14,981
Total		89,905	89,899

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Debt securities issued (continued)

(1) Tier-two capital bonds (continued)

- (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.
- (iv) Tier-two capital bonds with a nominal value of RMB15.0 billion, a term of 10 years, and a fixed coupon rate of 4.70% per annum, were issued in 2017 as the 1st tranche. 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.
- (v) Tier-two capital bonds with a nominal value of RMB15.0 billion, a term of 10 years, and a fixed coupon rate of 4.70% per annum, were issued in 2017 as the 2nd tranche. 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)

31 Debt securities issued (continued)

(2) Financial bonds

	Note	30 June 2018	31 December 2017
RMB30.0 billion — 3-year fixed rate financial bonds 2017	(i)	29,978	29,971
RMB20.0 billion — 3-year fixed rate financial bonds 2016	(ii)	19,987	19,982
RMB4.0 billion — 3-year fixed rate financial bonds 2018	(iii)	3,988	—
RMB1.0 billion — 3-year fixed rate financial bonds 2017	(iv)	998	998
Total		54,951	50,951

- (i) 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.
- (ii) 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.
- (iii) RMB4.0 billion worth of fixed-rate financial bonds were issued in 2018, with a term of three years, and a fixed coupon rate of 4.90% per annum.
- (iv) RMB1.0 billion worth of fixed-rate financial bonds were issued in 2017, with a term of three years, and a fixed coupon rate of 4.50% per annum.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Debt securities issued (continued)

(3) Medium-term notes

	Note	30 June 2018	31 December 2017
USD0.6 billion — 5-year medium-term notes 2018	(i)	3,961	—
USD0.5 billion — 3-year medium-term notes 2017	(ii)	3,296	3,259
USD0.45 billion — 3-year medium-term notes 2017	(iii)	2,972	2,935
USD0.45 billion — 3-year medium-term notes 2017	(iv)	2,968	2,935
USD0.4 billion — 3-year medium-term notes 2018	(v)	2,637	—
USD0.35 billion — 5-year medium-term notes 2017	(vi)	2,311	2,282
USD0.25 billion — 3-year medium-term notes 2017	(vii)	1,647	1,631
USD0.6 billion — 3-year medium-term notes 2015	(viii)	—	3,916
Total		19,792	16,958

- (i) Medium-term notes with a nominal value of USD0.6 billion of medium-term notes were issued in 2018, with a term of 5 years. The coupon rate is 3.38%.
- (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%.
- (iii) Medium-term notes with a nominal value of USD0.45 billion of medium-term notes were issued in 2017, with a term of 3 years. The coupon rate is 2.44%.
- (iv) Medium-term notes with a nominal value of USD0.45 billion of medium-term notes were issued in 2017, with a term of 3 years. The coupon rate is 2.34%.
- (v) Medium-term notes with a nominal value of USD0.4 billion of medium-term notes were issued in 2018, with a term of 3 years. The coupon rate is 3.50%.
- (vi) Medium-term notes with a nominal value of USD0.35 billion of medium-term notes were issued in 2017, with a term of 5 years. The coupon rate is 2.54%.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Debt securities issued (continued)

(3) Medium-term notes (continued)

(vii) Medium-term notes with a nominal value of USD0.25 billion of medium-term notes were issued in 2017, with a term of 3 years. The coupon rate is 2.88%.

(viii) 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%. The bank has redeemed all the medium-term notes as at 21 May 2018.

(4) Hybrid capital bonds

	Note	30 June 2018	31 December 2017
RMB3.325 billion — 15-year hybrid capital fixed rate bonds 2009	(i)	3,321	3,320
RMB1.675 billion — 15-year hybrid capital floating rate bonds 2009	(ii)	1,673	1,673
Total		4,994	4,993

(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.

(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.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

31 Debt securities issued (continued)

(5) Subordinated bonds

	Note	30 June 2018	31 December 2017
RMB4.0 billion — 15-year subordinated fixed rate bonds 2011	(i)	3,995	3,995

- (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.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

32 Other liabilities

	Note	30 June 2018	31 December 2017
Interest payable	(1)	42,939	42,276
Items in the process of clearance and settlement		17,266	22,235
Receipt in advance		11,077	11,289
Employee benefits payable	(2)	9,323	11,638
Other tax payable	(3)	3,745	3,588
Dividends payable		3,312	—
Intermediate collection and payment		3,208	2,701
Payable for long-term assets		759	583
Deferred fee and commission income		523	381
Accrued expenses		470	472
Guarantee deposits for finance lease		372	318
Others		11,413	8,738
Total		104,407	104,219

(1) Interest payable

	30 June 2018	31 December 2017
Deposits from customers	23,859	24,905
Deposits from banks and other financial institutions	6,969	6,087
Debt securities issued	3,169	3,789
Borrowings from banks and other financial institutions	1,016	1,058
Others	7,926	6,437
Total	42,939	42,276

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

32 Other liabilities (continued)

(2) Employee benefits payable

	At 1 January 2018	Increase	Decrease	At 30 June 2018
Short-term employee benefits				
Salaries, bonuses and allowances	11,297	6,291	(8,714)	8,874
Staff welfare fees	—	826	(826)	—
Social insurance and supplementary insurance	57	338	(329)	66
Housing fund	126	544	(507)	163
Labour union fee, staff and workers' education fee	24	151	(103)	72
Subtotal	11,504	8,150	(10,479)	9,175
Post-employment benefits- defined contribution plans				
Basic pension insurance plans	92	615	(602)	105
Unemployment insurance	17	22	(20)	19
Annuity scheme	25	456	(457)	24
Subtotal	134	1,093	(1,079)	148
Total	11,638	9,243	(11,558)	9,323

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

32 Other liabilities (continued)

(2) Employee benefits payable (continued)

	At 1 January 2017	Increase	Decrease	At 31 December 2017
Short-term employee benefits				
Salaries, bonuses and allowances	9,784	17,771	(16,258)	11,297
Staff welfare fees	—	2,243	(2,243)	—
Social insurance and supplementary insurance	47	1,317	(1,307)	57
Housing fund	117	1,077	(1,068)	126
Labour union fee, staff and workers' education fee	38	544	(558)	24
Subtotal	9,986	22,952	(21,434)	11,504
Post-employment benefits-defined contribution plans				
Basic pension insurance plans	89	1,199	(1,196)	92
Unemployment insurance	12	48	(43)	17
Annuity scheme	20	920	(915)	25
Subtotal	121	2,167	(2,154)	134
Total	10,107	25,119	(23,588)	11,638

(3) Other tax payable

	30 June 2018	31 December 2017
Value added tax	2,962	2,467
Others	783	1,121
Total	3,745	3,588

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

33 Share capital and capital reserve

	30 June 2018	31 December 2017
Ordinary shares listed in Mainland China (A share)	35,462	29,551
Ordinary shares listed in Hong Kong (H share)	8,320	6,934
Total shares	43,782	36,485

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

The shareholders approved the profit distribution and conversion of capital reserve to share capital plan for the second half of 2017 at the 2017 Annual General Meeting of Shareholders on 21 June 2018. The number of total shares issued before the implementation of the plan was 36,485 million, the Bank converted capital reserve to share capital on the basis of 2 shares for every 10 shares offered to all shareholders, and the total number of shares increased was 7,297 million. After the conversion, the total number of issued shares was 43,782 million.

The Group's capital reserve of RMB57,457 million as at 30 June 2018 (31 December 2017: RMB64,753 million), mainly represents capital premium.

34 Preference shares

(1) Preference shares outstanding at 30 June 2018

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)

34 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.

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.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

34 Preference shares (continued)

(2) Main Clauses (continued)

e Mandatory conversion trigger events (continued)

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)

35 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.

The Bank did not appropriate statutory surplus reserve during the period ended 30 June 2018 (for the year ended 31 December 2017: RMB4,862 million).

The Bank did not appropriate discretionary surplus reserve during the six months ended 30 June 2018 and the year ended 31 December 2017.

(2) General reserve

As at 30 June 2018, 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.

The Bank did not appropriate profits recorded to the general reserve during the period ended 30 June 2018 (For the year ended 31 December 2017: RMB1,147 million).

(3) Retained earnings

As at 30 June 2018, the retained earnings included the statutory surplus reserve of RMB562 million contributed by the subsidiaries and attributable to the Bank (31 December 2017: RMB549 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

36 Non-controlling interests

As at 30 June 2018, the non-controlling interests of the subsidiaries are RMB10,802 million (31 December 2017: RMB10,842 million).

37 Dividends

Dividends for Ordinary Shares

The shareholders approved the cash dividend distribution plan for the second half of 2017 and the capital reserve conversion plan at the Annual General Meeting on 21 June 2018. The cash dividend declared was RMB0.90 (before tax) for every 10 shares, amounting to a total dividend of RMB3,284 million based on total stock of 36,485 million as at 31 December 2017. And the bank converted capital reserve to share capital on the basis of 2 shares for every 10 shares to all shareholders, the total number of shares increased accordingly was 7,297 million 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.

Dividends for Preference Shares

According to the resolution on the distribution of dividends for overseas preference shares passed at the Board of Directors' meeting held on 4 December 2017, dividend to be distributed amounts to RMB523 million (including tax), calculated at the initial annual payout ratio of 4.95% (after tax) before the first reset date pursuant to the terms and conditions of overseas preference shares. The dividend payment date was 14 December 2017.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

38 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 2017	(1,834)	(721)	(2,555)
Changes in amount for the previous year	(2,923)	718	(2,205)
As at 31 December 2017	(4,757)	(3)	(4,760)
Changes in accounting policies	1,489	—	1,489
As at 1 January 2018	(3,268)	(3)	(3,271)
Changes in amount for the period	1,730	7	1,737
As at 30 June 2018	(1,538)	4	(1,534)

39 Notes to the consolidated cash flow statement

(1) Cash and cash equivalents

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

	30 June 2018	30 June 2017
Cash (Note 13)	7,113	6,775
Surplus deposit reserve with central bank (Note 13)	48,330	6,217
Original maturity within 3 months:		
— Balances with banks and other financial institutions	40,807	42,668
— Placements with banks and other financial institutions	19,820	27,323
Total	116,070	82,983

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

39 Notes to the consolidated cash flow statement (continued)

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Notes	Group				Total
		Liabilities		Equity		
		Debt securities issued	Interest payable on debt securities issued	Retained profits	Non-controlling interests	
		31	32(1)	35	36	
Balance as at 1 January 2018		501,927	3,789	151,893	10,694	668,303
Cash flows from financing activities						
Proceeds from issue of debt securities		588,799	—	—	—	588,799
Interests paid on debt securities issued		—	(2,836)	—	—	(2,836)
Repayments of debt securities issued		(551,258)	—	—	—	(551,258)
Net cash flows from financing activities		37,541	(2,836)	—	—	34,705
Total liability-related other change		9,952	2,216	—	—	12,168
Total equity-related other change		—	—	26,197	108	26,305
Balance as at 30 June 2018		549,420	3,169	178,090	10,802	741,481

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

39 Notes to the consolidated cash flow statement (continued)

(2) Reconciliation of movements of liabilities to cash flows arising from financing activities (continued)

	Group					Total
	Liabilities		Equity			
	Debt securities issued	Interest payable on debt securities issued	Retained profits	Non-controlling interests		
Notes	31	32(1)	35	36		
Balance as at 1 January 2017	398,376	4,190	130,630	9,437	542,633	
Cash flows from financing activities						
Proceeds from issue of debt securities	885,225	—	—	—	885,225	
Interests paid on debt securities issued	—	(12,282)	—	—	(12,282)	
Repayments of debt securities issued	(788,740)	—	—	—	(788,740)	
Dividends paid	—	—	(10,921)	(13)	(10,934)	
Net cash flows from financing activities	96,485	(12,282)	(10,921)	(13)	73,269	
Total liability-related other change	7,066	11,881	—	—	18,947	
Total equity-related other change	—	—	43,711	1,418	45,129	
Balance as at 31 December 2017	501,927	3,789	163,420	10,842	679,978	

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

40 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 2018, loans with an original carrying amount of RMB15,659 million have been securitised by the Group (31 December 2017: RMB27,361 million). As at 30 June 2018, there were no prime grade assets recognised by the Group (31 December 2017: RMB23 million), and the carrying amount of subordinated grade assets that the Group continues to recognise was RMB80 million (31 December 2017: RMB155 million), the assets were classified as financial assets at fair value through profit or loss.

Besides the securitisation transaction above, as at 30 June 2018, loans with an original carrying amount of RMB7,125 million (31 December 2017: 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 2018, the carrying amount of assets that the Group continued to recognise was RMB1,038 million (31 December 2017: RMB1,038 million). The carrying amount of continuing involvement assets and liabilities that the Group continued to recognise was RMB1,038 million (31 December 2017: RMB1,038 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

41 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 2018	31 December 2017
Bank acceptances	477,075	461,630
Guarantees	142,206	141,929
Letters of credit	107,645	107,523
Unused credit card commitments	105,807	100,714
Finance lease commitments	4,857	3,160
Irrevocable loan commitments		
– original maturity date within 1 year	444	680
– original maturity date over 1 year (inclusive)	3,043	3,606
Total	841,077	819,242

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

41 Contingent liabilities and commitments (continued)

(2) Capital commitments

	30 June 2018	31 December 2017
Contracted but not paid for	17,063	19,097
Authorised but not contracted for	17	19
Total	17,080	19,116

(3) Operating lease commitments

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

	30 June 2018	31 December 2017
Within 1 year	2,979	3,441
After 1 year but within 5 years	9,095	8,219
After 5 years	1,764	2,343
Total	13,838	14,003

(4) Fulfilment of commitments of prior period

The Group had fulfilled the capital commitments and operating lease commitments as at 30 June 2018, in material respects, as specified in the contracts.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

41 Contingent liabilities and commitments (continued)

(5) Assets pledged

	30 June 2018	31 December 2017
Discounted bills	37,728	46,930
Investment securities	48,401	60,100
Finance lease receivables	15,365	16,067
Property and equipment	15,832	15,428
Total	117,326	138,525

As at 30 June 2018, 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 RMB7,509 million as at 30 June 2018 (31 December 2017: RMB704 million). As at 30 June 2018, there were no pledged assets sold or repledged by the Group (31 December 2017: Nil). The Group has an obligation to repurchase these pledged assets on due dates.

(6) Underwriting of securities

	30 June 2018	31 December 2017
Medium and short-term finance bills	531,893	465,529

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

41 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 2018 was RMB3,469 million (31 December 2017: RMB4,082 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 2018. With consideration of the professional advice, the Group's management believes such litigation will not have a significant impact on the Group.

42 Consolidated structured entities

Structured entities consolidated by the Group include asset management plans and funds issued, managed and/or invested by the Group. The Group controls these entities because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

As at 30 June 2018, the total assets of these consolidated structured entities were RMB415 million (31 December 2017: RMB4 million). The financial impact of any individual structured entity 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)

43 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 specialised asset management plans, wealth management products, trust beneficiary plan 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 2018 in the structured entities sponsored by third party institutions:

	30 June 2018	
	Carrying amount	Maximum exposure
Specialised asset management plans	316,886	316,886
Wealth management products	212,894	212,894
Trust beneficiary plans	90,425	90,425
Asset-backed financings	58,819	58,819
Total	679,024	679,024

	31 December 2017	
	Carrying amount	Maximum exposure
Specialised asset management plans	668,706	668,706
Trust beneficiary plans	76,339	76,339
Asset-backed financings	39,491	39,491
Total	784,536	784,536

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

43 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 2018 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	30 June 2018		
	Financial assets at fair value through profit or loss	Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income
Specialised asset management plans	142,664	174,222	—
Wealth management products	212,894	—	—
Trust beneficiary plans	—	90,425	—
Asset-backed financings	6,890	8,403	43,526
Total	362,448	273,050	43,526

	31 December 2017		
	Loans and receivables	Available-for-sale securities	Financial assets held under resale agreements
Specialised asset management plans	668,706	—	—
Trust beneficiary plans	75,939	—	400
Asset-backed financings	20,620	18,871	—
Total	765,265	18,871	400

The maximum exposures to loss in the above specialised asset management plans, wealth management products, trust beneficiary plan and asset-backed financings 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)

43 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 2018 and 31 December 2017, 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 2018, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products and investment funds, which are sponsored by the Group, are RMB818,589 million and RMB319,205 million respectively (31 December 2017: RMB813,838 million and RMB371,326 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 2018

During the period ended 30 June 2018, the amount of fee and commission income received from the abovementioned structured entities by the Group is RMB3,144 million (for the six months ended 30 June 2017: RMB5,442 million).

The aggregated amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2018 but matured before 30 June 2018 is RMB333,953 million (after 1 January 2017 but matured before 30 June 2017: RMB482,484 million).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

44 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 RMB471,873 million as at 30 June 2018 (31 December 2017: RMB344,111 million). The balance of corporate annuity funds under custodian by the Group was RMB182,811 million as at 30 June 2018 (31 December 2017: RMB85,034 million). The balance of entrusted credit assets under management by the Group was RMB8,240 million as at 30 June 2018 (31 December 2017: RMB26,106 million). And the Group's balances of entrusted loans were RMB338,319 million as at 30 June 2018 (31 December 2017: RMB384,592 million).

45 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).

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Fair value of financial instruments (continued)

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 2018, 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)

45 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 2018			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	25,578	50,444	1,838	77,860
Equity investments	4,678	414	4,180	9,272
Investment funds	47,982	—	—	47,982
Specialised asset management plans	—	142,664	—	142,664
Wealth management products	—	212,894	—	212,894
Financial assets at fair value through other comprehensive income				
Debt securities	50,627	311,874	180	362,681
Equity investments	—	—	155	155
Loans and advances to customers designated at fair value through other comprehensive income				
	—	100,802	—	100,802
Derivative financial assets				
Interest rate contracts	—	1,912	—	1,912
Exchange rate contracts	—	20,835	—	20,835
Others	20	11,568	27	11,615
Total	128,885	853,407	6,380	988,672
Liabilities				
Financial liabilities which are measured at fair value on a recurring basis:				
Derivative financial liabilities				
Interest rate contracts	—	(553)	—	(553)
Exchange rate contracts	—	(20,071)	—	(20,071)
Others	(15)	(1,697)	—	(1,712)
Financial liabilities at fair value through profit or loss				
	(584)	(871)	—	(1,455)
Total	(599)	(23,192)	—	(23,791)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 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 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	23,076	39,213	—	62,289
Equity investments	532	—	531	1,063
Investment funds	1,314	—	—	1,314
Financial assets designated at fair value through profit or loss				
Debt securities	251	6,952	72	7,275
Investment funds	2,432	—	228	2,660
Derivative financial assets				
Interest rate contracts	—	1,050	—	1,050
Exchange rate contracts	—	11,298	—	11,298
Others	26	6,333	27	6,386
Available-for-sale securities				
Debt securities	59,740	262,203	56	321,999
Equity investments	1,067	358	4,061	5,486
Investment funds	51,252	—	—	51,252
Total	139,690	327,407	4,975	472,072
Liabilities				
Financial liabilities which are measured at fair value on a recurring basis:				
Derivative financial liabilities				
Interest rate contracts	—	(315)	—	(315)
Exchange rate contracts	—	(16,321)	—	(16,321)
Others	(18)	(1,422)	—	(1,440)
Financial liabilities at fair value through profit or loss				
	(777)	(2,596)	—	(3,373)
Total	(795)	(20,654)	—	(21,449)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 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:

	Six months ended 30 June 2018				
	Derivative financial assets	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Total assets
			Debt securities	Equity securities	
At 1 January	27	5,607	178	155	5,967
— in profit or loss	—	(1,694)	2	—	(1,692)
— in other comprehensive income	—	—	—	—	—
Purchase	—	1,817	—	—	1,817
Addition	—	288	—	—	288
At 30 June	27	6,018	180	155	6,380
Total gains for the year included in profit or loss for assets and liabilities held at end of the reporting period	—	(1,390)	5	9	(1,376)

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

45 Fair value of financial instruments (continued)

(2) Movement in level 3 financial instruments measured at fair value (continued)

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: (continued)

	2017					
	Derivative financial assets	Financial assets held for trading purpose	Financial assets designated at fair value through profit or loss	Available-for-sale securities		Total assets
				Debt securities	Equity securities	
At 1 January	84	472	—	14	3,911	4,481
— in profit or loss	—	(28)	20	19	—	11
— in other comprehensive income	—	—	—	(22)	(16)	(38)
Purchase	27	87	71	—	769	954
Addition	—	—	209	45	—	254
Settlement	(84)	—	—	—	(603)	(687)
At 31 December	27	531	300	56	4,061	4,975
Total gains for the year included in profit or loss for assets and liabilities held at end of the reporting period	—	(28)	20	27	—	19

(3) Transfers among levels

During six months ended 30 June 2018, 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)

45 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, borrowings 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 measured at amortised, financial assets measured at amortised cost other than bonds and investment securities — loans and receivables**

Loans and advances to customers measured at amortised, financial assets measured at amortised cost other than bonds, 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 Financial assets measured at amortised cost-bonds, held-to-maturity securities and available-for-sale equity investments which measured in cost**

The fair value for financial assets measured at amortised cost-bonds, 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)

45 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 2018					31 December 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets										
Financial assets measured at amortised cost	1,200,414	1,199,263	–	1,199,263	–	–	–	–	–	–
Available-for-sale equity investments	–	–	–	–	–	152	152	–	–	152
Loans and receivables	–	–	–	–	–	974,163	971,020	–	971,020	–
Loans and advances to customers	2,866,982	3,349,419	–	3,349,419	–	2,729,788	3,144,570	–	3,144,570	–
Held-to-maturity investments	–	–	–	–	–	708,244	679,333	–	679,333	–
Total	4,067,396	4,548,682	–	4,548,682	–	4,412,347	4,795,075	–	4,794,923	152
Financial liabilities										
Deposits from customers	3,157,881	3,180,334	–	3,180,334	–	2,966,311	2,982,404	–	2,982,404	–
Debt securities issued	549,420	544,649	–	544,649	–	501,927	497,864	–	497,864	–
Total	3,707,301	3,724,983	–	3,724,983	–	3,468,238	3,480,268	–	3,480,268	–

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related Party Transactions

(1) Related parties

- (i) 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.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related Party Transactions (continued)

(1) Related parties (continued)

(ii) The Bank's main shareholder

Company name	Registered location	Registered capital	No. of Shares of the Bank held by the Company (share)	Proportion of the Bank held by the Company (%) (Note a)	Business (Note b)	Legal form	Legal representative
Anbang Life Insurance Inc.	Beijing	RMB30,790 million	2,371,416,274	6.50	Insurance business	Joint stock limited company	Yao Dafeng
Anbang Property Insurance Inc.	Shenzhen	RMB37,000 million	2,046,834,132	5.61	Insurance business	Joint stock limited company	Ye Jing
Anbang Insurance Group Co., Ltd.	Beijing	RMB61,900 million	1,673,502,001	4.59	Insurance business	Joint stock limited company	He Xiaofeng
Hexie Health Insurance Co., Ltd.	Sichuan	RMB13,900 million	416,760,000	1.14	Insurance business	Joint stock limited company	Gu Hongmei
Huaxia Life Insurance Co., Ltd.	Tianjin	RMB15,300 million	1,819,827,863	4.99	Insurance business	Joint stock limited company	Li Fei
Orient Group Incorporation	Heilongjiang	RMB3,715 million	1,066,764,269	2.92	Wholesaling	Joint stock limited company	Sun Mingtao
China Oceanwide Holdings Group Co., Ltd.	Beijing	RMB20,000 million	1,682,652,182	4.61	Commercial service	Limited company	Lu Zhiqiang
Oceanwide International Equity Investment Limited	British Virgin Islands	USD0.05 million	503,584,125	1.38	Investment holding	Limited company	(Note c)
China Oceanwide International Investment Company Limited	Hong Kong	HKD1,548 million	6,864,600	0.02	Investment holding	Limited company	(Note c)
New Hope Liuhe Investment Co., Ltd.	Lhasa	RMB577 million	1,523,606,135	4.18	Commercial service	Limited company	Wang Pusong
South Hope Industrial Co., Ltd.	Lhasa	RMB884 million	85,323,189	0.23	Retailing	Limited company	Li Jianxiong
Shanghai Giant Lifetech Co., Ltd.	Shanghai	RMB245 million	1,149,732,989	3.15	Retailing	Limited company	Wei Wei
China Shipowners Mutual Assurance Association	Beijing	RMB0.10 million	1,086,917,406	2.98	Insurance business	National social groups	Song Chunfeng
Tongfang Guoxin Investment Co., Ltd.	Chongqing	RMB2,574 million	614,932,047	1.69	Capital market service	Limited company	Liu Qinqin
Chongqing Guotou Equity Investment Management Co., Ltd.	Chongqing	RMB500 million	385,117,716	1.06	Commercial service	Limited company	Yu Xiaohua
Chongqing International Trust Company Limited	Chongqing	RMB15,000 million	101,667,551	0.28	Trust business	Joint stock limited company	Weng Zhenjie
Good First Group Co., Ltd.	Shanghai	RMB133 million	556,300,022	1.52	Research and experimental development	Limited company	Wu Di

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related Party Transactions (continued)

(1) Related parties (continued)

(ii) The Bank's main shareholder (continued)

- a As at 30 June 2018, proportion of ownership interest held by Huaxia Life Insurance Co., Ltd. was 4.99% (31 December 2017: 4.39%), Tongfang Guoxin Investment Co., Ltd. held 1.69% of the ownership interest (31 December 2017: 1.37%), Chongqing International Trust Company Limited held 0.28% of the ownership interest (31 December 2017: 0.59%), Good First Group Co., Ltd. held 1.52% of the ownership interest (31 December 2017: 1.47%), other proportions of ownership interest held by the above major shareholders remain the same as proportions on 31 December 2017.

- b Particulars of principal operations:

Anbang Life Insurance Inc.: Various life insurance businesses such as life insurance, health insurance and accidental injury insurance, reinsurance business of the above insurance businesses, insurance fund application business permitted under the PRC laws and regulations, and other businesses approved by the CIRC.

Anbang Property Insurance Inc.: Property and casualty insurance, liability insurance, credit and guarantee insurance, short-term health insurance and accidental injury insurance, reinsurance in connection with the above insurance businesses, insurance fund application business permitted under the PRC laws and regulations and other businesses approved by the CIRC.

Hexie Health Insurance Co., Ltd.: Various Renminbi and foreign currencies-denominated health insurance businesses, accidental injury insurance businesses, health insurance business ancillary to the national health care policies and entrusted by the governments, health insurance related consulting service and agency businesses, health insurance related reinsurance businesses, funds application businesses permitted under the PRC laws and regulations, and other businesses approved by the CIRC.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related Party Transactions (continued)

(1) Related parties (continued)

(ii) The Bank's main shareholder (continued)

b Particulars of principal operations: (continued)

Huaxia Life Insurance Co., Ltd.: Various life insurance businesses such as life insurance, health insurance and accidental injury insurance businesses, related reinsurance businesses of the above insurances, funds application businesses permitted under the PRC laws and regulations, and other businesses approved by the CIRC.

Orient Group Incorporation: Investments in modern agriculture, new urbanisation and development, financial industry, ports and transportation industry.

China Oceanwide Holdings Group Co., Ltd.: Finance, real estate and investment management.

New Hope Liuhe Investment Co., Ltd.: Venture capital, investment management and wealth management investment.

South Hope Industrial Co., Ltd.: Research and development, wholesale and retail of feeds, electronic products, hardware and electrical appliances, daily sundry goods, textiles, office equipment (excluding colour copier), building materials (excluding hazardous chemicals and wood materials), agricultural by-products and special products (excluding products specified by the State), chemical products (excluding hazardous chemicals), mechanical equipment, investment and consultancy services (excluding intermediary services).

Shanghai Giant Lifetech Co., Ltd.: Manufacturing and sales of food (through its subsidiaries), sales of cosmetics, cleaning products, healthcare equipment and kitchenware, technical development, consultancy, services and transfer in healthcare food aspect, back-to-back wholesale of prepackaged food (excluding cooked or braised and refrigerated or frozen food), investment management, asset management, investment consultancy, business information consultancy and business management consultancy.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related Party Transactions (continued)

(1) Related parties (continued)

(ii) The Bank's main shareholder (continued)

b Particulars of principal operations: (continued)

China Shipowners Mutual Assurance Association: Marine mutual assurance, business training, marine information exchange, international cooperation and consultancy service.

Tongfang Guoxin Investment Co., Ltd.: Making investments with its own fund (accepting public deposits or accepting public deposits in any disguised form, granting loans and conducting securities, futures and other financial business are not allowed); providing its associated companies with consultancy services, including market information, in respect of markets in which they invested; providing planning and consultancy services in relation to corporate reorganisation, merger and acquisition; and providing corporate management services. (Businesses that require pre-approvals according to laws shall only be conducted after obtaining approvals from the relevant authorities).

Good First Group Co., Ltd.: Research, development and sale of high-tech products; industrial investment; investments in the education, agriculture, secondary industry and entertainment industry and healthcare products; sale of photographic equipment and new construction materials; wholesale and retail of chemicals (excluding hazardous chemicals and chemicals subject to supervision and control), textiles, hardware and electrical appliances, commodities, metal materials, construction materials, automobiles (excluding passenger cars) and parts, general machinery, electronic products and telecommunication devices and mineral products as approved by the country.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related Party Transactions (continued)

(1) Related parties (continued)

(ii) The Bank's main shareholder (continued)

- c The Oceanwide International Equity Investment Limited and China Oceanwide International Investment Company Limited are registered overseas, both the above companies are ultimately controlled by Lu Zhiqiang.

The information of registered capital of the related parties as at the end of the reporting period is as below:

Company name	30 June 2018	31 December 2017
Anbang Life Insurance Inc.	RMB30,790 million	RMB30,790 million
Anbang Property Insurance Inc.	RMB37,000 million	RMB37,000 million
Anbang Insurance Group Co., Ltd.	RMB61,900 million	RMB61,900 million
Hexie Health Insurance Co., Ltd.	RMB13,900 million	RMB8,900 million
Huaxia Life Insurance Co., Ltd.	RMB15,300 million	RMB15,300 million
Orient Group Incorporation	RMB3,715 million	RMB3,715 million
China Oceanwide Holdings Group Co., Ltd.	RMB20,000 million	RMB20,000 million
Oceanwide International Equity Investment Limited	USD0.05 million	USD0.05 million
China Oceanwide International Investment Company Limited	HKD1,548 million	HKD1,548 million
New Hope Liuhe Investment Co., Ltd.	RMB577 million	RMB577 million
South Hope Industrial Co., Ltd.	RMB884 million	RMB884 million
Shanghai Giant Lifetech Co., Ltd.	RMB245 million	RMB245 million
China Shipowners Mutual Assurance Association	RMB0.10 million	RMB0.10 million
Tongfang Guoxin Investment Co., Ltd.	RMB2,574 million	RMB2,574 million
Chongqing Guotou Equity Investment Management Co., Ltd.	RMB500 million	RMB500 million
Chongqing International Trust Company Limited	RMB15,000 million	RMB15,000 million
Good First Group Co., Ltd.	RMB133 million	RMB133 million

- (iii) 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)

46 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 2018	31 December 2017
Wuhan Centre Investment & Development Co., Ltd.	Guaranteed	4,000	—
Oceanwide Holdings Co., Ltd.	Guaranteed	2,320	—
Legend Holdings Ltd.	Guaranteed	1,500	1,500
Levima Advanced Materials Co., Ltd.	Guaranteed	1,400	—
Orient Group Incorporation Co., Ltd. and its subsidiaries	Pledged	713	723
SHR FSST,LLC	Collateralised	662	653
Xiamen Jingding Sports Culture Development Co.,Limited	Collateralised	635	650
RPFCEBIDCO PTY LIMITED	Guaranteed	486	—
Good First Group Co., Ltd.	Collateralised	480	668
	Guaranteed	300	177
Xinjiang East Hope Nonferrous Metal Co., Ltd.	Guaranteed	450	—
Sichuan Gui Da Industrial Co., Ltd.	Collateralised	400	—
Minsheng Yanglao Co., Ltd.	Guaranteed	346	346
Tianjin Hai Hui Real Estate Development Co., Ltd.	Collateralised	313	—
Sichuan Hope Education Group Co, Ltd.	Collateralised	239	—
China Fortune Financial Group Limited	Guaranteed	219	—
Gemdale Corporation	Guaranteed	200	—
SINO-OCEAN LAND (HONG KONG) Limited	Guaranteed	184	—
Shanghai Goldpartner Biotech Co.,Ltd.	Guaranteed	150	—
Chengdu New Hope Real Estate Co., Ltd.	Collateralised	123	—
Guangxi Tang Gui Investment Co., Ltd.	Collateralised	109	—
Hebei Sulong Photovoltaic Power Generation Co., Ltd.	Collateralised	104	104
Sichuan Hope Senlan Energy and Chemical Co., Ltd.	Guaranteed	100	100
Shanghai Songjiang Water company	Guaranteed	83	90
Lakala Payment Co., Ltd.	Guaranteed	50	—

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party transactions (continued)

(2) Related party transactions (continued)

(ii) Loans to related parties

Balances outstanding as at the end of the reporting period: (continued)

	Types of collateral	30 June 2018	31 December 2017
Sichuan Meihao Estate Enterprise Marketing & Planning Co., Ltd.	Pledged	43	43
	Collateralised	30	—
Sichuan Hope West Construction Co., Ltd.	Guaranteed	40	20
Shanxi New Hope Energy Investment Development Co., Ltd.	Pledged	34	50
Chongqing Yufu Highway Co., Ltd.	Pledged	27	27
Sichuan Hope Senlan Air Conditioning manufacturing Co., Ltd.	Guaranteed	20	50
Xiamen Rongyin Co., Ltd.	Pledged	13	11
Sinopharm Group Co., Ltd. and its subsidiaries	Guaranteed	Note	5,730
AUSPICIOUS SUCCESS LIMITED	Guaranteed	Note	784
Nanjing Iron and Steel Unite Co., Ltd.	Pledged	Note	97
BYBO DENTAL GROUP and its subsidiaries	Guaranteed	—	250
CUDECO LIMITED	Guaranteed	—	65
HopeSenlan Science & Technology Co., Ltd.	Guaranteed	—	30
Individuals	Collateralised	22	26
Total		15,795	12,194
Ratio to similar transactions (%)		0.53	0.45

Note: As at 30 June 2018, the entity was no longer related parties of the Group.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party transactions (continued)

(2) Related party transactions (continued)

(ii) Loans to related parties (continued)

Amount of transactions:

	Six months ended 30 June	
	2018	2017
Interest income from loans	241	161
Ratio to similar transactions (%)	0.21	0.14

As at 30 June 2018, none of the above loans are found to be Lifetime ECL credit-impaired (31 December 2017: Nil).

(iii) Other transactions with related parties

Balances outstanding as at the end of the reporting period:

	30 June 2018		31 December 2017	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Placements with banks and other financial institutions	6,700	3.59	—	—
Financial assets at fair value through profit or loss	611	0.12	70	0.09
Investment securities:				
— Financial assets at fair value through other comprehensive income	1,082	0.30	—	—
— Financial assets measured at amortised cost	800	0.07	—	—
— available-for-sale securities	—	—	1,235	0.33
Long-term receivables	301	0.27	416	0.41
Financial assets held under resale agreements	296	0.86	—	—
Other assets	81	0.07	42	0.04
Deposits from customers	9,433	0.30	17,668	0.60
Deposits and placements from banks and other financial institutions	4,403	0.35	212	0.02
Other liabilities	22	0.02	48	0.05

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 Related party transactions (continued)

(2) Related party transactions (continued)

(iii) Other transactions with related parties (continued)

Amount of transactions for the reporting period:

	2018		2017	
	Six months ended 30 June		Six months ended 30 June	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Interest income	32	0.03	40	0.04
Interest expense	86	0.11	503	0.70
Fee and commission income	1	0.01	189	0.69
Operating expenses	103	0.55	202	1.10

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 2018		31 December 2017	
	Ratio to similar transactions		Ratio to similar transactions	
	Balance	(%)	Balance	(%)
Guarantees	3,719	2.62	3,421	2.41
Bank acceptances	1,909	0.40	3,849	0.83
Letters of credit	300	0.28	375	0.35

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 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 2018		31 December 2017	
	Balance	Ratio to similar transactions (%)	Balance	Ratio to similar transactions (%)
Loans collateralised by related parties	15,090	0.51	11,851	0.43

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 2018 and 30 June 2017, and the Group's financial position as at 30 June 2018 and 31 December 2017.

(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 2018 and for the six months ended 30 June 2017.

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 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 RMB5 million as at 30 June 2018 (31 December 2017: RMB6 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 RMB32 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB33 million).

(vi) Transactions between the Bank and its subsidiaries

Balances outstanding as at the end of the reporting period:

	30 June 2018	31 December 2017
Balances with banks and other financial institutions	201	51
Placements with banks and other financial institutions	16,389	2,500
Loans and advances to customers	3,324	2,504
Other assets	472	376
Deposits and placements from banks and other financial institutions	7,211	8,638
Deposits from customers	1,277	497
Other liabilities	25	47

Notes to the Unaudited Interim Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)

46 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	
	2018	2017
Interest income	323	58
Interest expense	126	74
Fee and commission income	108	201
Operating expenses	139	93

For the period ended 30 June 2018, the transactions between subsidiaries of the Group are mainly inter-bank deposits. As at 30 June 2018, the balance of the above transactions was RMB832 million (31 December 2017: RMB275 million).

The balances and amount with the subsidiary and inter-subsidiaries have been offset in the consolidated financial statements.

47 Subsequent events

Up to the approval date of the financial statements, the Group had no material subsequent events for disclosure.

48 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 2018	Average for the period ended 30 June 2018	As at 31 December 2017	Average for the period ended 30 June 2017
Liquidity coverage ratio (%) (RMB and foreign currency)	98.65%	96.91%	95.46%	82.59%

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 2018			
	USD	HKD	Others	Total
Spot assets	385,786	65,088	72,374	523,248
Spot liabilities	(372,585)	(34,018)	(23,473)	(430,076)
Forward purchases	819,712	25,905	95,216	940,833
Forward sales	(740,351)	(46,010)	(110,236)	(896,597)
Net long position*	92,562	10,965	33,881	137,408

	31 December 2017			
	USD	HKD	Others	Total
Spot assets	386,901	55,112	63,665	505,678
Spot liabilities	(395,750)	(33,673)	(24,651)	(454,074)
Forward purchases	668,925	13,354	62,194	744,473
Forward sales	(586,963)	(26,937)	(113,783)	(727,683)
Net long/(short) position*	73,113	7,856	(12,575)	68,394

* 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) Lifetime ECL credit-impaired loans by geographical area

	30 June 2018				
	Northern China	Eastern China	Southern China	Other Locations	Total
Impaired loans	29,694	15,232	7,927	18,526	71,379
Allowance for impairment losses	16,924	8,070	3,833	10,832	39,659

	31 December 2017				
	Northern China	Eastern China	Southern China	Other Locations	Total
Impaired loans	19,843	11,053	4,433	12,560	47,889
Allowance for impairment losses					
— Individual assessment	5,615	3,582	1,295	3,183	13,675
— Collective assessment	7,010	2,828	1,364	3,535	14,737

(2) Loans overdue for more than 3 months by geographical area

	30 June 2018				
	Northern China	Eastern China	Southern China	Other Locations	Total
Overdue loans	29,038	14,859	7,123	17,388	68,408
Allowance for impairment losses	16,509	7,923	3,567	10,136	38,135

	31 December 2017				
	Northern China	Eastern China	Southern China	Other Locations	Total
Overdue loans	27,702	15,002	5,560	16,798	65,062
Allowance for impairment losses					
— Individual assessment	1,470	1,634	620	1,164	4,888
— Collective assessment	7,876	3,315	1,664	4,363	17,218

Unaudited Supplementary Financial Information (Continued)

(Expressed in millions of Renminbi, unless otherwise stated)


4 International claims

	30 June 2018				
	Asia pacific excluding mainland China	North America	Europe	Other Locations	Total
	Banks and other financial institutions	37,814	7,327	6,211	4,069
Public sector entities	842	—	—	—	842
Others	60,648	26,847	6,407	19,956	113,858
Total	99,304	34,174	12,618	24,025	170,121

	31 December 2017				
	Asia pacific excluding mainland China	North America	Europe	Other Locations	Total
	Banks and other financial institutions	34,794	9,624	4,924	5,182
Public sector entities	826	130	—	—	956
Others	117,807	29,043	6,148	19,715	172,713
Total	153,427	38,797	11,072	24,897	228,193



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