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招商銀行股份有限公司

**CHINA MERCHANTS BANK CO., LTD.**

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

**(Stock code: 03968)**

## **OVERSEAS REGULATORY ANNOUNCEMENT**

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board of Directors of  
**China Merchants Bank Co., Ltd.**

24 March 2017

*As at the date of this announcement, the executive directors of the Company are Tian Huiyu and Li Hao; the non-executive directors of the Company are Li Jianhong, Li Xiaopeng, Sun Yueying, Fu Gangfeng, Hong Xiaoyuan, Su Min, Zhang Jian and Wang Daxiong; and the independent non-executive directors of the Company are Leung Kam Chung, Antony, Wong Kwai Lam, Pan Chengwei, Pan Yingli, Zhao Jun and Wong See Hong.*

## **2016 Report on Assessment of Internal Control of China Merchants Bank Co., Ltd.**

**To all shareholders of China Merchants Bank Co., Ltd.:**

In accordance with the provisions of “Basic Standards for Corporate Internal Control” and its guidelines and other regulatory requirements of internal control (hereinafter referred to as the Corporate Internal Control Standard System), and in view of the internal control system and assessment methods of the Company (hereinafter referred to as the “Company”), we evaluated the effectiveness of the internal control of the Company as at 31 December 2016 (Record Date of the Report on Assessment of Internal Control) based on the daily supervision and special supervision.

### **I. IMPORTANT STATEMENT**

Pursuant to the requirements of the Corporate Internal Control Standard System, the Board of Directors is responsible for establishing and implementing a sound and effective internal control system, evaluating its effectiveness and honestly disclosing the report on assessment of internal control. The Board of Supervisors supervised the establishment and implementation of internal control by the Board of Directors. Management is in charge of the daily operation of internal control of the Company. The Board of Directors, the Board of Supervisors and the directors, supervisors and senior management of the Company hereby warrant there are no false representations, misleading statements or material omissions in this report, and they jointly and severally accept legal responsibility for the truthfulness, accuracy and completeness of the contents contained herein.

The objectives of the Company’s internal control are to provide reasonable assurance for the operation and management in compliance with laws and regulations, asset safety, truthfulness and completeness of financial report and relevant information, improvement of operating efficiency and results, as well as promotion of development strategy. Due to inherent limitations of internal control, it can only provide reasonable assurance for realisation of above objectives. In addition, changes in circumstances may lead to inappropriate internal control or less compliance to control policies and procedures, thus it has certain risks in predicting the effectiveness of future internal control in accordance with the evaluation results of internal control.

### **II. EVALUATION CONCLUSION OF INTERNAL CONTROL**

#### **1. Whether there were any major defects identified in internal control in the financial report on the Record Date of the Report on Assessment of Internal Control**

Yes     No

**2. Evaluation conclusion of internal control in the financial report**

Effective    Ineffective

According to the identification criteria of material defects in internal control in the financial report of the Company, as at the Record Date of the Report on Assessment of Internal Control, material defects of internal control in the financial report did not exist. The Board of Directors is of the view that the Company has maintained effective internal control in the financial report in all material aspects in accordance with requirements of Corporate Internal Control Standard System and relevant regulations.

**3. Whether material defects in internal control in the non-financial report were found**

Yes    No

According to the identification criteria of material defects in internal control in the non-financial report of the Company, as at the Record Date of the Report on Assessment of Internal Control, material defects in internal control in the non-financial report did not exist.

**4. Factors affecting the conclusion to the evaluation of effectiveness of internal control from the Record Date of the Report on Assessment of Internal Control to the date of issue of the Report on Assessment of Internal Control**

Applicable    Not applicable

There was no factor affecting the conclusion to the evaluation of effectiveness of internal control from the Record Date of the Report on Assessment of Internal Control to the date of issue of the Report on Assessment of Internal Control.

**5. Whether the audit opinion on internal control is consistent with the conclusion to the evaluation of effectiveness of internal control in financial report of the Company**

Yes    No

**6. Whether the disclosure of material defects in internal control in non-financial report in the audit report on internal control is consistent with the disclosure of the Report on Assessment of Internal Control of the Company**

Yes    No

### III. ASSESSMENT OF INTERNAL CONTROL

#### (I) Assessment Scope of Internal Control

The Company determined to include major units, business and matters as well as high-risk fields into the assessment scope pursuant to risk-oriented principle.

**1. The major units within the assessment scope comprise of:** departments and offices of the Head Office, domestic branches, overseas branches and subsidiaries within the scope of consolidated financial statements, namely Wing Lung Bank, CMB Financial Leasing Co., Ltd., CMB International Capital Holdings Corporation Limited and China Merchants Fund Management Co., Ltd..

**2. Percentage of the units being included in the assessment scope:**

Index	Percentage (%)
Percentage of total asset of the units being included in the assessment scope to the total asset in combined financial statements of the Company	93.57
Percentage of total operating income of the units being included in the assessment scope to the total operating revenue in combined financial statements of the Company	95.29

**3. Main business and matters within the assessment scope comprise of:**

Corporate governance, development strategy, organisational structure, human resources, corporate culture, financial management, management of consolidated financial statements, credit business, operational management, funds and market risk, wholesale business, international business, retail business, credit card business, intermediary business, related party transaction, outsourced business, information and communication, information system, internal monitoring and other operation and management fields.

**4. High-risk fields with key concerns mainly comprise of:**

Emerging financing business, trade financing business, loans granted to real estate sector, industries with overcapacity, credit business for small- and micro-sized enterprises, wealth management business, risk conversion between on- and off-balance sheet, private financing and illegal fund-raising and other external risk transmission, liquidity risk and market risk, new business, new products, new procedures, IT risk, rotation of important posts, reconciliation of internal and external accounts and management of staff conduct.

**5. The above units, business, matters and high-risk field included in the assessment scope can cover the main aspects of operation and management of the Company, and whether there are any material omissions**

Yes  No

**6. Whether there is any statutory exemption**

Yes  No

**7. Other matters require explanation**

No

**(II) Basis for Internal Control Assessment and Identification Criteria of Defects in Internal Control**

Pursuant to the Corporate Internal Control Standard System, and procedures and methods stipulated in the Internal Control Assessment Measures, the Company organised and carried out internal control assessment.

**1. Whether there are any adjustments in the specific identification criteria of defects in internal control compared with the previous year**

Yes  No

Pursuant to the identification requirements of material, major and common defects under the Corporate Internal Control Standard System, and taking into account the scale, industrial characteristics, risk aversion preferences, risk resistant capability and other factors of the Company, the Board of Directors of the Company made discrimination of internal control between financial report and non-financial report, formulating the specific identification criteria applicable to the internal control defects of the Company upon study, which remained the same as the previous year.

**2. Identification criteria of defects in internal control in the financial report**

The quantitative criteria for the assessment of the internal control defects in the financial report recognised by the Company are as follows:

Name of indicator	Quantitative criteria of material defect	Quantitative criteria of major defect	Quantitative criteria of common defect
Potential misstatement of total profit	Misstatement $\geq 5\%$ of total profit	3% of total profit $\leq$ misstatement $< 5\%$ of total profit	Misstatement $< 3\%$ of total profit
Potential misstatement of total assets	Misstatement $\geq 1\%$ of total assets	0.5% of total assets $\leq$ misstatement $< 1\%$ of total assets	Misstatement $< 0.5\%$ of total assets
Potential misstatement of operating income	Misstatement $\geq 1\%$ of total operating income	0.5% of total operating income $\leq$ misstatement $< 1\%$ of total operating income	Misstatement $< 0.5\%$ of total operating income
Potential misstatement of owner's equity	Misstatement $\geq 1\%$ of total equity attributable to the owner	0.5% of total equity attributable to the owner $\leq$ misstatement $< 1\%$ of total equity attributable to the owner	Misstatement $< 0.5\%$ of total equity attributable to the owner

Description:

Note: The total profit, total assets, operating income and owner's equity are subject to the figures in the final accounting statements as of 31 December 2016.

In the event that certain internal control defects simultaneously impose impact on the total profit, total assets, operating income and owner's equity, it is necessary to estimate the amount incurred by each internal control defect, and take into account of the overall impact based on arithmetic aggregation so as to identify the defect level.

The qualitative criteria for the assessment of the internal control defect in the financial report recognised by the Company are as follows:

Nature of Defect	Qualitative Criteria
Material defect	Impact of information misstatement: causing the information users to make serious wrong decision in the cause of wrong information, resulting in irreversible decision-making losses Impact of information system on data integrity: having the significant impact on the data integrity of the system
Major defect	Impact of information misstatement: having the significant impact on the information users, which may affect their judgments on the nature of some events, resulting in serious decision-making losses Impact of information system on data integrity: having the significant impact on the data integrity of the system
Common defect	Impact of information misstatement: having no or minor impact on the internal or external information users Impact of information system on data integrity: having no or minor impact on the data integrity of the system

Description:

In addition, the material defects or symptoms of significant defects in the financial report, which include: malpractices are conducted by the Directors, Supervisors and Senior Management; the published financial report is rectified by the Company; the material misstatement in the current financial report which is not discovered in the process of internal control is identified by the certified accountant; and the monitoring of Audit Committee and internal auditors is violating.

### 3. Identification criteria of internal control defect in the non-financial report

The quantitative criteria for the assessment of the internal control defects in the non-financial report recognised by the Company are as follows:

Name of indicator	Quantitative criteria of material defect	Quantitative criteria of major defect	Quantitative criteria of common defect
Direct asset loss amount	Loss $\geq 1\%$ of total profit	0.5% of total profit $\leq$ loss $< 1\%$ of total profit	Loss $< 0.5\%$ of total profit
	Loss $\geq 0.3\%$ of total assets	0.1% of total assets $\leq$ loss $< 0.3\%$ of total assets	loss $< 0.1\%$ of total assets
	Loss $\geq 0.5\%$ of total operating income	0.25% of total operating income $\leq$ loss $< 0.5\%$ of total operating income	loss $< 0.25\%$ of total operating income

Description:

Note: The total profit, total assets and operating income are subject to the figures in the final accounting statements as of 31 December 2016.

In the event that certain internal control defects simultaneously impose impact on the total profit, total assets and operating income, it is necessary to estimate the amount incurred by each internal control defect, and take into account of the overall impact based on arithmetic aggregation so as to identify the defect level.

The qualitative criteria for the assessment of the internal control defects in the non-financial report recognised by the Company are as follows:

Nature of Defect	Qualitative Criteria
Material defect	Operating impact: causing serious damage to the core competitiveness and ability of the Company to provide its customers service Regulatory impact: being observed by the regulator(s) constantly and the fine paid having the material impact on the annual profit Reputation impact: negative information leading to material damage
Major defect	Operating impact: having the significant internal and external impact, such as the serious loss of key employees or customers Regulatory impact: being warned and imposed special investigation by the regulator(s) and the fine paid having the major impact on the annual profit Reputation impact: negative information leading to major damage
Common defect	Operating impact: having no or minor impact on the daily operation Regulatory impact: being imposed no or minor penalty based on the feedback from the regulator(s) Reputation impact: negative information having no or minor damage to the corporate reputation

Description:

None

### **III. IDENTIFICATION AND RECTIFICATION OF THE INTERNAL CONTROL DEFECTS**

#### **1. Identification and rectification of the internal control defects in the financial report**

##### **1.1. Material defect**

Whether the Company has material internal control defects in the financial report during the reporting period

Yes  No

##### **1.2. Major defect**

Whether the Company has major internal control defects in the financial report during the reporting period

Yes  No

##### **1.3. Common defect**

The Company has formulated rectification plan and implemented rectification measures for the purpose of common internal control defects in the financial report so as to further improve the sufficiency and effectiveness of internal control.

##### **1.4. Based on the abovementioned rectification, whether the Company has material internal control defects in the financial report pending rectification as at the Record Date of the Report on Assessment of Internal Control**

Yes  No

##### **1.5. Based on the abovementioned rectification, whether the Company has major internal control defects in the financial report pending rectification as at the Record Date of the Report on Assessment of Internal Control**

Yes  No



## **2. Identification and rectification of the internal control defects in the non-financial report**

### **2.1. Material defect**

Whether the Company has material internal control defects in the non-financial report during the reporting period

Yes  No

### **2.2. Major defect**

Whether the Company had major internal control defects in the non-financial report during the reporting period

Yes  No

### **2.3. Common defect**

The Company has formulated rectification plan and implemented rectification measures for the purpose of common internal control defects in the financial report so as to further improve the sufficiency and effectiveness of internal control.

### **2.4. Based on the abovementioned rectification, whether the Company has material internal control defects in the non-financial report pending rectification as at the Record Date of the Report on Assessment of Internal Control**

Yes  No

### **2.5. Based on the abovementioned rectification, whether the Company has major internal control defects in the non-financial report pending rectification as at the Record Date of the Report on Assessment of Internal Control**

Yes  No

**IV. DESCRIPTION ON OTHER MATERIAL MATTERS IN RELATION TO INTERNAL CONTROL**

**1. Rectification of internal control defects in previous year**

Applicable     Not Applicable

**2. Operation of internal control in the current year and improvement for the next year**

Applicable     Not Applicable

**3. Description on other material matters**

Applicable     Not Applicable

Chairman of the Board of Directors (authorised by the Board of Directors):Li Jianhong

China Merchants Bank Co., Ltd.

24 March 2017