招商銀行
CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

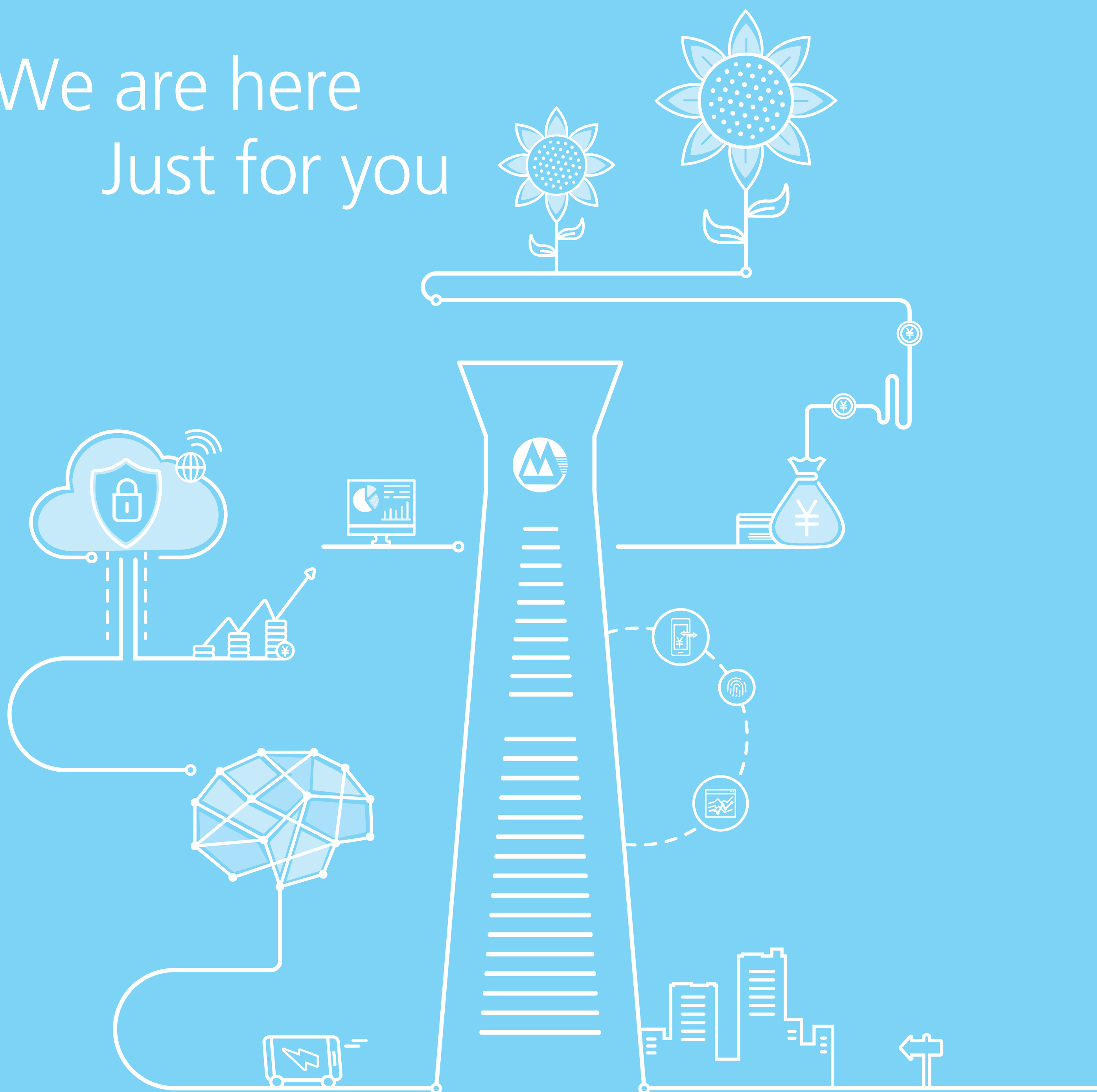
(a joint stock company incorporated in the People's Republic of China with limited liability)

H Share Stock Code : 03968

Preference Share Stock Code : 04614

2017 Annual Report

We are here
Just for you



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Important Notice

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

2. The 22nd meeting of the Tenth Session of the Board of Directors of the Company was held at its Shekou Training Center on 23 March 2018. The meeting was presided by Li Jianhong, Chairman of the Board of Directors. 15 out of 15 eligible Directors attended the meeting in person. 8 Supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the "Company Law of the People's Republic of China" and the "Articles of Association of China Merchants Bank Co., Ltd.".

3. Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu (both being auditors of the Company) have separately reviewed the 2017 annual financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Financial Reporting Standards, and issued standard auditing reports with unqualified opinions.

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

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

6. Proposal of profit appropriation: it was proposed that 10% of the audited net profit of the Company for 2017 of RMB64.510 billion, equivalent to RMB6.451 billion, will be allocated to the statutory surplus reserve, while 1.5% of the total amount of the risk assets, equivalent to RMB2.760 billion, will be appropriated to the general reserve. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company will declare a cash dividend of RMB0.84 (tax included) for every share to all shareholders of the Company whose names appear on the register, payable in Renminbi for holders of A Shares and in Hong Kong Dollars for holders of H Shares. The actual profit appropriations amount in HKD would be calculated based on the average benchmark rate for RMB to HKD published by the People's Bank of China for the previous week (including the day of the general meeting) before the date of the general meeting. The retained profits will be carried forward to the next year. In 2017, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2017 Annual General Meeting of the Company.

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

Definitions

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

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

China Banking Regulatory Commission or CBRC:
China Banking Regulatory Commission

China Securities Regulatory Commission or CSRC:
China Securities Regulatory Commission

China Insurance Regulatory Commission or CIRC:
China Insurance Regulatory Commission

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

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

Wing Lung Bank or WLB:
Wing Lung Bank Limited

Wing Lung Group:
Wing Lung Bank and its subsidiaries

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

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

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

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

CM Securities:
China Merchants Securities Co., Ltd.

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

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

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

Significant Risk Warning

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

Chairman's Statement

2017 was an extraordinary year witnessing China's entry into a new era as announced at the 19th CPC National Congress, and was also the 145th anniversary of China Merchants Group and the 30th anniversary of China Merchants Bank. Over the past year, facing tough challenges from internal and external operating environment, China Merchants Bank has stayed true to its original aspiration and maintained its strategic positioning. It made a great move forward in regaining its past glory, and honoured the 19th CPC National Congress, the 145th anniversary of China Merchants Group and the 30th anniversary of China Merchants Bank by delivering satisfactory operating results.

In 2017, China Merchants Bank realised a net profit attributable to shareholders of the Bank of RMB70.150 billion, returning to a two-digit growth of 13.00%. Return on average equity (ROAE) attributable to ordinary shareholders of the Bank was 16.54%, representing a year-on-year increase of 0.27 percentage point and showing a sign of bottoming out. The non-performing loan ratio was 1.61%, representing a decrease of 0.26 percentage point as compared with the end of the previous year, and the balance of non-performing loans decreased by RMB3.728 billion, both realising a decrease. Our total assets amounted to more than RMB6.29 trillion, representing an increase of 5.98% as compared with the end of the previous year, achieving a steady and healthy growth.

The strategic plan for "building the best commercial bank in China with innovation-driven development, leading retail banking and distinguished features", which was determined by the Board of Directors, has been well implemented. In 2017, CMB APP 6.0 integrated with the AI-powered Fintech was launched, and the cross-border direct link payment Blockchain platform, which marked the first cross-border Blockchain project in China and the Asia-Pacific region, was also rolled out. The Fintech innovation continued to fuel the growth in our businesses and customers. The number of retail customers exceeded 100 million while customers found their user experience constantly improved. Our advantage in retail business has been further enhanced. As at the end of 2017, the Company's net operating income from retail businesses accounted for 51.28% of its total income, representing a year-on-year increase of 1.85 percentage points. Our wholesale business has developed its distinguished features. Our transaction banking, investment banking and financial market product system have constantly been enriched and improved. We also significantly improved our capability of serving strategic customers.

China Merchants Bank continued to create value for all parties of society. As at the end of 2017, the total market capitalisation of China Merchants Bank exceeded RMB710 billion, representing an increase of 64% as compared with the beginning of the year. Throughout the year, the increase in stock price and market valuation of our A shares and H shares both ranked first among domestic medium- and large-sized listed banks, showing a stunning performance in the capital market and bringing rather satisfactory return to our shareholders. In adhering to our "customer-centric" service concept, CMB is committed to offering customers better services that are more intelligent and convenient, thus creating value for our customers. Employees are our most valuable assets. Putting into practice the "people-oriented" concept, China Merchants Bank has formed a strategic partnership and community of interests with its employees by establishing the comprehensive system for recruitment, training, pooling, exchange and allocation of talents through multiple channels and means. In 2017, China Merchants Bank was also enlisted among the Top 30 of the "China Best Employer Award 2017" organised by Zhaopin Limited and the Social Survey Research Center of the Peking University.

In 2017, the Board of Directors adhered to the prudent operation principles of "ensuring assets quality, prioritising operation efficiency, putting risks under control and maintaining proper scale", and took the following initiatives to enhance strategic guidance, monitor risks in a forward-looking manner and increase investments in Fintech. Firstly, we implemented the strategic task of "outperforming the market and peers" and formulated the relevant assessment mechanism for staff expenses management, encouraging the Bank to improve its assets quality and overall performance and enhance its competitive edge under the premise of risks being fully exposed; secondly, we further improved the overall risk management and constantly removed the blind spots, flaws and weaknesses in risk management; thirdly, in response to the rapid development of Fintech, we established the "Fintech Innovation Project Fund" specially for investments in Fintech, so as to boost the Fintech innovation of China Merchants Bank. At the same time, members of the Board of Directors diligently and proactively carried out special researches, timely identified the changes in the development pattern and the trend of the global banking industry, conducted in-depth studies on the significant resolutions of China Merchants Bank, and set the right course of development to ensure stable and healthy business growth.


Li Jianhong
Chairman

In addition, China Merchants Bank has diligently fulfilled its responsibilities regarding "customer service, value creation, green development, career development and social harmony", aiming to build a better society through financial services. In 2017, China Merchants Bank continued to explore ways of utilising its professional capabilities in public welfare activities to create greater shared value for the society through targeted poverty alleviation, employee volunteering activities and encouraging cardholders to make donations. The Bank gave more care to its staff, supported their career development, promoted work-life balance and listened to their opinions, in an effort to grow together with its staff. The Bank continued to develop green finance vigorously, supported the development of a green, low-carbon and environmentally friendly economy with its own professional capabilities, and jointly created a better living environment through development of new technologies, improvement of its staff's awareness on environment protection and other self-initiated approaches. China Merchants Bank was awarded the "Outstanding Enterprises for Social Responsibilities in China for 2017" at the Award Ceremony for Social Responsibilities and Public Welfare in China for 2017 co-sponsored by Xinhuanet.com and the Research Center of Corporate Social Responsibility at the Chinese Academy of Social Sciences.

Going forward, the banking industry will be presented with a number of historical opportunities and greater room for growth in this new era. As one of the leaders in the PRC banking industry, China Merchants Bank should make new achievements and get a new look in this great era, further improve its operation and management in accordance with the standards of the world's top-tier banks, and basically reach the benchmark of the world's top-tier commercial banks in eight areas: returns to shareholders, strategic deployment, risk management, customer experience, staff satisfaction, Fintech development, operational efficiency and brand reputation.

"Talent + Innovation" is the fundamental driving force of China Merchants Bank in this new era. Over the past three decades, talents have been the key for the successful growth of China Merchants Bank. Facing its historic mission and challenges from Fintech in the new era, China Merchants Bank will make itself an epitome of strugglers, learners and Fintech users, and maximise the potential and capabilities of talents through the market-oriented incentive mechanism. As a bank with an inherent disposition towards technology, the Board of Directors and senior management of China Merchants Bank, while having strong sense of crisis and clear strategy orientation, will adhere to the belief that a bank can go through a process of disruption, fault tolerance and win-win situation by embracing technological advances through increased investments in Fintech to improve its Fintech functionality, accelerate its Fintech application and foster its competitive edge in Fintech in the new era.

Good corporate governance serves as a crucial systemic safeguard for China Merchants Bank in the new era. In 2018, the Board of Directors will continue to support China Merchants Bank in its healthy and sustainable development and increase its support in the implementation of the "talents + innovation" initiative for further business development. The Bank will further increase the amount of the Fintech innovation fund and the investments in Fintech while following the principles of "tolerating failures and rewarding achievements". At the same time, the Bank will unremittingly promote the implementation of system innovation and offer innovative medium- to long-term incentives. In addition, the Bank will adhere to the concept of maintaining a dynamic balance among "quality, efficiency and scale" in its development, hold on to a conservative risk preference and constantly monitor its various operational risks.

2018 marks the first year to implement the guiding principles issued by the 19th CPC National Congress, and also the 40th anniversary of the Reform and Opening-Up of China. China Merchants Bank, as a brainchild of China's Reform and Opening-Up policy, will give full play to its aptitude for reform and innovation with strong support from all its shareholders. We will continue to deliver good operating results that "outperform the market and peers" with the dual driving forces – talents and innovation. More value would be created for all walks of life in the society and more contributions would be made to China's development in the new era!

China Merchants Bank Co., Ltd.
Chairman

President's Statement

We've made much accomplishment in the last three decades.

Over the past year, China Merchants Bank realised a net operating income and a net profit attributable to shareholders of the Bank of RMB221.037 billion and RMB70.150 billion, representing a year-on-year increase of 5.12% and 13.00%, respectively. At the end of the year, our total assets exceeded RMB6.29 trillion, representing an increase of 5.98% as compared with the end of the previous year, and our asset quality was stable with improvements, as both the balance of non-performing loans and the non-performing loan ratio declined. Even more delightful is that Fintech has taken the number of our customers to a new level, with a total number of over 100 million retail customers and over 1.57 million corporate customers. Total number of users on CMB APP and CMB Life APP also exceeded 100 million, with more than 45 million monthly active users.

In the past year, the price of A shares and H shares of China Merchants Bank rose by more than 70%. Our latest market capitalisation exceeded RMB710 billion, ranking 11th among the listed banks in the world. This shows the recognition from the market and investors, which motivates us to strive forward.

Over the past year, China Merchants Bank further promoted the strategic transformation of "Light-operation Bank", demonstrating the transformation results of "more secure structure, more distinctive features and clearer model". The strategic advantages are being translated into our financial advantages. This provides us with strategic opportunities to further deepen our reform and free us to solve several deep-rooted fundamental problems that may restrict our higher-quality development.

The Bank has made remarkable achievements over the past three decades. The past years were marked with our glories, but they do not guarantee us to win out in the future. The wheel of era has never stopped. We cannot live only in our past achievements. Instead, we must overcome cyclical factors and dodge potential pitfalls to find new opportunities and growing points.

2018 coincides with the 40th anniversary of the Reform and Opening-Up Policy. It is also the starting point to set out a new journey. The banking industry has commenced its differentiation. Under the circumstances of preventing and resolving financial risks, strong supervision and de-leveraging will completely reshape the competitive landscape of the financial industry. Our long-term adherence to the sound risk management culture and the compliant operation philosophy has further enhanced the relative competitive advantages of CMB. The PRC economy has shifted from a period of rapid growth to a stage of high-quality development. Through continuous strategic transformation, CMB has eliminated the burden of scale and switched its growth curve, thus achieving a dynamic balanced development of "quality, efficiency and scale", which is in line with the national high-quality development concept. What is even more exciting is that our strategic transformation has won us valuable time, allowing us to more comfortably pursue the higher-level, higher-quality development.

Banking is an industry with a long history. From the credit contract that came with the "obligatory donation" of the Babylonian temples in 2000 BC to the earliest Venetian bank in the 16th century, and from the banknotes in the Song Dynasty and private banks in the Ming and Qing Dynasties, to the birth of Imperial Bank of China in 1897, the traditional business model of banks has been inherited for thousands of years, which is long standing even after the rise of great powers and the change in dynasties. Today, none of the factors including the cyclical factors of economic downturn, the market factors relating to the change of interest rates and exchange rates, and the policy factors such as de-leveraging and strong supervision will change the business model of banks. Technology, however, is the only thing that may fundamentally change and subvert the business model of banks.

Over the first decade of this century, substantial breakthroughs were made in the Mobile Internet, Big Data, Cloud Computing, Artificial Intelligence, Blockchain and other cutting-edge technologies, and they have been widely used in the past 5 years. The next round of technological revolution has kicked off. The human lifestyle and business ecology have been or are being reconstructed. There are still great uncertainties in the future. As long as they are frontrunners in the application of cutting-edge technologies, even the start-up companies will have a greater chance of "evolution" in the future to achieve the goal of "winning through dimensionality reduction strikes" and become new "overlords".

Therefore, in an era of unprecedented changes not found in the past 100 years, we have seen that Internet technology companies such as Apple, Alphabet (Google's parent company), Microsoft, Amazon, Facebook, Tencent and Alibaba step into the top 10 listed companies in the world in terms of market value, while several traditional "giant" enterprises are unable to keep up with the pace of development. We can not predict what could happen in the future, but we will be ready no matter what lies ahead.

The vision of "building CMB into a bank that thrives for centuries" requires us to work together for the future based on our past experiences. Therefore, we took initiatives to change with the trend, proposed the objective of building a "Digital Bank", and prioritised technological development as the most important task of transformation. Each and every business, process and management shall be rebuilt by means of Fintech, and the overall organisation, every manager and employee shall be re-equipped with the Fintech mentality, so as to provide sustainable "nuclear power" for the second half of the strategic transformation of "Light-operation Bank". As such, we decided to allocate 1% of the pre-tax profits (RMB790 million) for the previous year to set up special FinTech innovation project funds in addition to the conventional IT cost and investment in 2017. The fund will increase to 1% of the operating income for the previous year in 2018 (RMB2.21 billion). Future investment may be further increased if necessary. We believe that investing in Fintech is investing in the future.

Tian Huiyu
President

Talents are indispensable for the exploration of a new development path. We made innovations in systems and mechanisms, established technology-equipped Fintech innovation and incubation platforms and built a trial and error system to encourage staff to start small-group internal entrepreneurship targeting users and markets.

We re-set our coordinate system, benchmarked with Fintech companies in a comprehensive manner, and built Fintech infrastructure with focus on the establishment of five basic technologies, namely Mobile Internet, Big Data, Cloud Computing, Artificial Intelligence and Blockchain.

We broadened our horizons and built up the ecological system of commercial banking with an open mind and long-term perspective. Internally, we broke the operating philosophy that rooted from isolated account system and transformed into an open user system. CMB APP and CMB Life APP are not just transaction tools but also operational platforms. These two APPs are popular among the young generation. Externally, through win-win cooperation and online-offline integration, we attracted traffic, expanded scenarios and opened the application programming interface (API) for CMB services. We were determined to seize the opportunities arising from the commercial applications of 5G technology, and to develop Internet supply chain financial services by way of embedding into the industry chain. The services of CMB will be available wherever the customers are.

We changed our mindset thoroughly and re-examined our internal management based on the principle of putting customer experience in priority. By using Fintech concepts and means, we reformed the business processes, rebuilt the operating system, optimised cost management and made innovation in systems and mechanisms. By closely focusing on customer needs and in-depth integration of technologies and businesses, we used technology agility to drive business agility and created the best customer experience.

We know that technology is, after all, just tools and means, and that customers are the origin for all business philosophy. In the past, we competed with our competitors. In the future, we need to catch up with our customers. Therefore, during the strategic period of the new era, we further put forward the objective of "building the bank with best customer experience", regarded customer experience as our guiding star, and focused on enhancing customer experience as the principle of all works. Taking customer experience as the new starting point of the new era, we strived to achieve a quality leapfrogging development of China Merchants Bank.

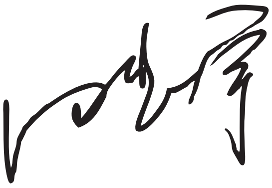
There are no shortcuts in serving our customers. We always remember the initial mindset of "we are here just for you", the faith of "sincerity and integrity, like family and friends", the patience of "small moves making big differences" and the persistence of "irrigating everything quietly like the spring rain for decades on end". We are against business opportunism, and we will never forget where our services started. We will return to the fundamentals of customer service, shake off the burden of business scale, not deliberately pursue the growth of short-term income, and shift our focus to customer experience. We firmly believe that sound financial indicators are the natural outcome of serving customers, whereas customer experience is the fundamental and decisive factor.

We worked diligently to form the initial outline of the wholesale financial customer service system step by step. The specialised operating systems for strategic customers, financial institutions customers, institutional customers and small-sized enterprise customers have been implemented, and the Customer Relationship Management System has been gradually improved. Two product systems of transaction banking and investment banking had distinctive features. Strategic businesses such as cash management, merger and acquisition, asset management, asset custody, financial market transactions and bills gradually established leading market positions. Our next task is to focus on customer experience, enlarging our customer base in a solid and robust way, emphasizing comprehensive customer services and in-depth management, and completely discarding the credit culture of business opportunism.

With a comprehensive solid foundation, retail finance is the symbol of CMB. Over the past 30 years of development, we firmly grasped the opportunities arising at different times, stuck to the concept of "customer-centric", used "All-in-one Card" to replace bankbook, took the lead to realise inter-bank withdrawals, replaced deposits with AUM (assets under management) to innovate the new model of wealth management, thereby realising two leap forwards and laying solid foundation for retail business. Today, we shall follow the trend once again to build a best customer experience bank by focusing on improving customer experience. Looking into the future, we will strive to achieve growth in orders of magnitude for monthly active users of CMB APP and CMB Life APP in the next three years, and take these parameters as major breakthroughs in enhancing customer experience in the next three years, so as to achieve the third key leap forward and apply our advantages in service quality in the Internet-based applications.

The past is the prologue of the future. In the past, CMB has always maintained its strategic foresight and made major deployments that surpassed its short-term interests at critical junctures, therefore formed its differentiated competitive advantages. For the next 30 years, CMB will continue to lead the trend and write new legends while always keeping its original aspiration in mind.

China Merchants Bank Co., Ltd.
President



Liu Yuan
Chairman of the Board of Supervisors

Company Information

1.1 Company profile

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

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

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

1.1.4 **Mailing Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: +86 755 8319 8888
Fax: +86 755 8319 5109
E-mail: cmb@cmbchina.com
Website: www.cmbchina.com
Customer service hotline: 95555

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

1.1.6 **Share Listing:**
A Shares: Shanghai Stock Exchange
Abbreviated Name of A Shares: CMB
Stock Code: 600036
H Shares: SEHK
Abbreviated Name of H Shares: CM BANK
Stock Code: 03968
Domestic Preference Shares: Shanghai Stock Exchange
Abbreviated Name of Shares: CMB Preference Shares 1
Stock Code: 360028
Offshore Preference Shares: SEHK
Abbreviated Name of Shares: CMB 17USDPREF
Stock Code: 04614

1.1.7 **Domestic Auditor:** Deloitte Touche Tohmatsu Certified Public Accountants LLP
Office Address: 30th Floor, Bund Center, 222 Yan'an Road East, Shanghai, China
Certified Public Accountants for Signature: Zeng Hao, Zhu Wei
International Auditor: Deloitte Touche Tohmatsu
Office Address: 35th Floor, One Pacific Place, 88 Queensway, Hong Kong

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

1.1.9 Registrar for A Shares:
China Securities Depository & Clearing Corporation Ltd., Shanghai Branch
Share Register and Transfer Office as to H Shares:
Computershare Hong Kong Investor Services Ltd.
Shops 1712-1716, 17/F, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong
Registrar for Domestic Preference Shares:
China Securities Depository & Clearing Corporation Ltd., Shanghai Branch
Registrar and Transfer Agent for Overseas Preference Shares:
The Bank of New York Mellon SA/NV, Luxembourg Branch

1.1.10 Websites and Newspapers designated for Information Disclosure:
Mainland China: *"China Securities Journal", "Securities Times", "Shanghai Securities News"*
website of Shanghai Stock Exchange (www.sse.com.cn),
website of the Company (www.cmbchina.com)
Hong Kong: website of SEHK (www.hkex.com.hk),
website of the Company (www.cmbchina.com)
Place of maintenance of annual reports: Office of the Board of Directors of the Company

1.1.11 Sponsor for Domestic Preference Shares:
UBS Securities Co., Ltd.
Office Address: 12th and 15th Floor, Yinglan International Financial Center, No. 7 Financial Street, Xicheng District, Beijing
Sponsor Representative: Lin Ruijing, Luo Yong
China Merchants Securities Co., Ltd.
Office Address: 38-45th Floor, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Sponsor Representative: Wang Yuting, Wei Jinyang
Continuous Supervision Period: 12 January 2018 to 31 December 2019

1.2 Corporate business overview

Founded in 1987 with its head office in Shenzhen, China, the Company is a national commercial bank with sizeable scale and strength in China. The Company mainly focuses on the market in China. The Company's distribution network primarily covers China's major economic centres such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. For details, please refer to the section headed "Distribution Channels" and the section headed "Branches and Representative Offices". As at the end of the reporting period, the Company has 1,869 domestic and overseas correspondent banks in 105 countries (including China) and regions. The Company was listed on the Shanghai Stock Exchange in April 2002 and on the SEHK in September 2006.

The Company provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Company, such as "All-in-one Card", a multi-function debit card, "All-in-one Net", a comprehensive online banking service platform, credit cards, the "Sunflower Wealth Management" services and private banking services, CMB APP and CMB Life APP, transaction banking services and offshore business services such as global cash management as well as trade financing, asset management, asset custody, investment banking and other services, have been widely recognised by consumers in China.

In 2017, the Company took the initiative to adapt to the changes in the external environment, steadily pushed forward the strategic transformation, clearly positioned itself as a "Digital Bank", realised an improvement on asset quality, and accelerated the growth of earnings. Centering on the theme of "enhancing customer experience", we are fully committed to the changes of financial technology from 2018 onwards. For further details, please refer to the sections headed "Chairman's Statement" and "President's Statement".

1.3 Development strategies, investment value and core competitiveness

Development vision: Building the "Best Commercial Bank in China" with innovation-driven development, leading retail banking and distinctive features.

Strategic objective: Closely adhering to the transformation objective of building a "Light-operation Bank", realising balanced development among "quality, efficiency and scale", continually optimising operational structure, basically completing the system of a "Light-operation Bank", initially achieving digitalisation of the Bank, and vigorously promoting internationalisation and integration.

Strategic positioning: Adhering to the strategic positioning of "One Body with Two Wings", focusing on the construction of basic customer base and core customer base, enriching two product systems namely basic products and professional products, equipping retail business with significant competitive edges and corporate business with distinctive features, and enhancing the coordination of business lines.

Development Strategies:

– Proactively occupy the strategic dominant position in the future: firstly, the Company will continually promote structural adjustment and operational transformation to realise the objective of a "Light-operation Bank". Secondly, the Company will strengthen the proactive management of risks and maintain sound operation in responding to the deceleration of economic growth. Thirdly, the Company will promote digitalisation in a comprehensive manner to build a digitalised CMB and realise leaping development. Fourthly, the Company will build a professional system of "investment banking – asset management – wealth management", so as to form its new core competitive edges.

– Push forward the transformation of the business model. The Company will strive to combine "experience" with "technology", build a leading digitalised innovative bank and an excellent wealth management bank, form a new model for retail banking service in the Internet era, and bring the systematic competitiveness of retail finance to a new height. Focusing on "promoting transformation, adjusting structure and improving quality", the Company will promote in-depth transformation of the development model of corporate finance, and vigorously forge our differentiated competitive advantages. The Company will adhere to the integration of investment banking and commercial banking, capitalise on the overall strength of corporate finance and vigorously promote the coordinated development between "transaction banking" and "investment banking" so as to build a leading business system of transaction banking and investment banking. The Company will also strengthen business synergy, exert its unique advantage of "One Body with Two Wings" and steadily promote integration so as to provide all-inclusive financial services to customers. In addition, the Company will push forward internationalisation so as to enhance our overseas operational and management level.

– Build a strong strategic supporting system. Firstly, the Company will realise the "dual-model developments" (using traditional development model and agile development model simultaneously) of IT projects, and vigorously enhanced its technology-based capability. Secondly, the Company will transform from management-orientation to service-orientation, and build a "light-operation" human resources management system. Thirdly, the Company will optimise its resources allocation, and further strengthen asset and liability management and financial management. Fourthly, the Company will strive to enhance its risk management level, so as to build a professional, independent and vertical comprehensive risk management system. Fifthly, the Company will form an integrated internal control and management system to reinforce the foundation of its internal control and compliance. Sixthly, the Company will push forward the structural reform of organisations, so as to build a flexible and efficient operating mechanism. Seventhly, the Company will promote the structural reform of operations and procedures, so as to form a "light-operation" system. Eighthly, the Company will optimise channel construction and management to enhance the efficiency of channel operation. Ninthly, the Company will reinforce cultural branding of CMB and cultivate the driving force for sustainable development.

Investment Value and Core Competitiveness:

Well-developed and refined strategic management. Adhering to the strategy-driven development, the Company's strategic management has become increasingly well-developed. It has given full play to its comparative advantages and management potential amidst the crucial period of technological progress, industrial restructuring and deepening of financial markets. The Company attains proper strategic positioning and vigorously carries out structural adjustment for business development, customers, channels and products in an effort to promote the dynamic and balanced development of "Quality, Efficiency and Scale", thus navigating a differentiated development path with outstanding performance.

Well-structured layout of business plans. Leveraging on its own endowment of resources, the Company established a clear strategic positioning of "One Body with Two Wings" through its focus on business and customers, built a professional system of "Investment Bank – Asset Management – Wealth Management", thereby creating a large number of leading and distinctive businesses and forming the layout of business plans with a coherent structure and stronger capability to withstand cyclical risks.

Fully empowered Fintech. As a "Digital Bank", the Company regards Fintech as the driver for its transformation and development, fully empowering its business development. Through benchmarking with Fintech companies, the Company will build up the overall infrastructure for China Merchants Bank's financial science and technology, establish an ecological system for the business of China Merchants Bank with an open mindset and a long-term perspective, and transform the business management model with the concepts and methods of Fintech so as to strengthen the capability of science and technology, promote the integration of technology with business and promote business agility based on agile technology.

Advantageous retail finance. The retail bank of the Company set an early lead in the industry and formed an all-round inward development system in terms of customer base, channels, products and brands. At the same time, through vigorous promotion of inclusive and intensive growth and enhancement of refined management, key factors including profit contribution, the proportion of high-end customers and the replacement rate of electronic banking counters are among the best in the industry, thus the leading advantages of our retail finance are expanding.

Distinctive wholesale finance. The Company actively builds a market-leading wholesale finance business with distinctive features and leverages on its professional advantages to provide its clients with customized and integrated financial services. New growth engines such as investment banking, transaction banking, asset custody, asset management, bills and financial markets have been growing continuously and professional service capabilities have been fully affirmed and widely recognized by the market and customers.

Scientific and efficient management system. Based on the principle of serving customers and boosting business development, the Company successfully established the comprehensive, modern and scientific risk management system, the capital management system, the operational management system, the information management system, the performance appraisal system and the human resource management system of the Company which have been put in place and the relevant capabilities acquired can guarantee the steady development of business operation in the long run.

Continuous improvement of the organizational system. In accordance with the direction of "professionalism, delayering and intensification", the Company creates an efficient light management structure, establishes an end-to-end customer service process and builds organizational models with distinctive features of the CMB, such as setting up business divisions in the branch level. The professionalization level and the efficiency of operation and management have been improving and the speed to respond to customer needs and market changes has been picking up.

Industry-leading quality service. The Company developed a unique service model ever since it was founded. Through its long-term practice, it has established its service concept of "We are here just for you". We attach importance to the customer service experience, proactively promote service upgrading, and always keep its service quality ahead. "Good service" has been the tag of the Company, attracting customers and markets by its brand name.

Excellent professional personnel. The Company has cultivated and created a high-quality talent team through a people-oriented culture and a market-based talent incentive mechanism. The senior management team has extensive experience and is well settled down. The overall quality of staff and their professional skills are industry-leading. We proactively embrace competition in Fintech by expanding the investment and recruitment of Fintech talents.

1.4 Awards and honors received in 2017

In 2017, the Company received a number of honors from organisations both at home and abroad, including:

- On 1 February 2017, *The Banker* released The Top 500 Banking Brands. The Company ranked 12th in the world with a brand value of USD14.269 billion, up by 1 place from 2016. On 3 July, *The Banker* released the ranking of Top 1000 World Banks of 2017, in which the Company ranked 23rd in the world.
- On 22 February 2017, the Company was awarded the "Best Private Bank in China" by *Euromoney*. In this year's China Private Banking Service Awards, and in addition to receiving the Best Private Bank in serving ultra-high net worth clients (i.e. more than USD30 million in investment assets), high-net-worth clients (USD5 million to USD30 million in investments assets) and super-wealthy clients (USD1 million to USD5 million), we have also received a number of first prizes in respect of asset management, family offices, commercial banking services, investment banking services and technological innovation among all the peers in China, ranking the first in all niche markets.
- On 17 March 2017, in the selection campaign for "The International Excellence in Retail Financial Services Awards 2017" organised by *The Asian Banker* magazine, the Company was awarded the "Best Retail Bank in China" for the eighth time, and the "Best Joint Stock Retail Bank in China" for the thirteenth time. On 8 June, at the International Awards Presentation Ceremony organized by *The Asian Banker* magazine, the Company was honored to receive six awards such as the "Best Joint Stock Transaction Bank in China", "Best Joint Stock Cash Management Bank in China", "Custodian Bank of the Year in China", "Best Financial Supply Chain Management in China", "Best Cash Management in China "and "Best Treasury Shared Service Centre in China". On 6 December, the Company won the "Best Overall Private Bank in China" and "Best Joint Stock Private Bank in China" awards in 2017 again in the Award Programme of China Private Bank and Wealth Management organized by *The Asian Banker* magazine.
- On 5 June 2017, *Caijing* magazine released the list of the "Evergreen Award – the First Year's Best Financial Institutions Selection". The Company was awarded the "Best Annual Joint-stock Bank", "Best Annual Credit Card Bank", "Best Annual Asset Custodian Bank "and" Best Private Bank of the Year ".
- On 15 June 2017, in the "2017 China Financial Innovation Award" organized by *The Chinese Banker*, the Company was awarded the "Best Financial Innovation Award". On 21 September, at the Award Ceremony of China Commercial Bank Competitiveness Ranking for 2017 hosted by *The Chinese Banker*, the Company received four awards, namely "First Place in the Ranking of National Commercial Banks in Financial Appraisal", "Third Place in the Ranking of National Commercial Banks in Core Competitiveness", "Best Commercial Bank" and "Best Wealth Management Bank".
- On 28 June 2017, at the release of "2016 Social Responsibility Report on China's Banking Industry" and the Social Responsibility Award Ceremony held by the China Banking Association, the Company won the "Best Charity Contribution Award on Social Responsibility in China's Banking Industry in 2016".
- On 12 July 2017, the Company won all the seven awards of the "2017 All-Asia Strategy Management Team" from the U.S. financial magazine *Institutional Investors*.
- On 20 July 2017, the list of Fortune Global 500 was officially released. The Company was in the list for 6 consecutive years and ranked 216th in 2017. On 31 July, the Company ranked 30th in the Fortune China Top 500 list.
- On 21 November 2017, at the "China Star 2017" award ceremony held by *Global Finance*, the Company received three awards, namely the "Best Private Bank", "Best Bank For Intergenerational Wealth Management" and "Best OBOR Initiative – Domestic".
- On 7 December 2017, the Company was honored to receive two awards, namely the "Top 30 Employers of China for 2017" and the "Employer with the Most Female Attention of China for 2017" at the China Best Employer Awards Ceremony hosted by Zhilian Zhaopin.
- On 13 December 2017, the Company was awarded the "Annual Outstanding Credit Card Bank" by "2017 Financial Champions Award organised by Wallstreetcn".
- On 22 December 2017, the Company was awarded the "Best Joint-Stock Bank of the Year" at the "2017 Gold Medal of China's Financial Institutions • Gold Dragon Medal Ceremony" sponsored by the *Financial Times*.
- On 25 December 2017, the Company was awarded "China's Leaders in Fintech: Best National Commercial Bank" in 2017 by *Asian Currency.*

Summary of Accounting Data and Financial Indicators

2.1 Key accounting data and financial indicators

Operating Results

(in millions of RMB, excluding percentages)	2017	2016	Changes +/(-)%
Net operating income[1]	221,037	210,270	5.12
Profit before tax	90,680	78,963	14.84
Net profit attributable to shareholders of the Bank	70,150	62,081	13.00

Per Share (RMB)

	2017	2016	Changes +/(-)%
Basic earnings attributable to ordinary shareholders of the Bank[2]	2.78	2.46	13.01
Diluted earnings attributable to ordinary shareholders of the Bank	2.78	2.46	13.01
Year-end net assets attributable to ordinary shareholders of the Bank	17.69	15.95	10.91

Volume Indicators

(in millions of RMB, excluding percentages)	31 December 2017	31 December 2016	Changes +/(-)%
Total assets	6,297,638	5,942,311	5.98
of which: total loans and advances to customers	3,565,044	3,261,681	9.30
Total liabilities	5,814,246	5,538,949	4.97
of which: total deposits from customers	4,064,345	3,802,049	6.90
Total equity attributable to shareholders of the Bank	480,210	402,350	19.35

Notes: (1) Net operating income is the sum of net interest income, net fee and commission income, other net income as well as share of profits of associates and joint ventures.

(2) The Bank issued non-cumulative preference shares, but did not pay any dividend on the preference shares in 2017. Therefore, when calculating basic earnings per share, return on average equity and net assets per share, no dividend on the preference shares was deducted from "net profit attributable to shareholders of the Bank", while the preference shares were deducted from both the "average equity" and the "net assets".

2.2 Financial ratios

(%)	2017	2016	Changes
Profitability indicators			
Return on average assets attributable to shareholders of the Bank	1.15	1.09	Increased by 0.06 percentage point
Return on average equity attributable to ordinary shareholders of the Bank	16.54	16.27	Increased by 0.27 percentage point
Net interest spread	2.29	2.37	Decreased by 0.08 percentage point
Net interest margin	2.43	2.50	Decreased by 0.07 percentage point
As percentage of net operating income			
– Net interest income	65.53	64.01	Increased by 1.52 percentage points
– Net non-interest income	34.47	35.99	Decreased by 1.52 percentage points
Cost-to-income ratio(1)	30.21	27.60	Increased by 2.61 percentage points

	31 December 2017	31 December 2016	Changes
Capital adequacy indicators under the advanced approach (%)			
Tier 1 capital adequacy ratio	13.02	11.54	Increased by 1.48 percentage points
Capital adequacy ratio(2)	15.48	13.33	Increased by 2.15 percentage points
Equity to total assets	7.68	6.79	Increased by 0.89 percentage point
Asset quality indicators (%)			
Non-performing loan ratio	1.61	1.87	Decreased by 0.26 percentage point
Allowance coverage ratio of non-performing loans(3)	262.11	180.02	Increased by 82.09 percentage points
Allowance ratio of loans(4)	4.22	3.37	Increased by 0.85 percentage point

Notes: (1) Cost-to-income ratio is calculated as operating expenses (excluding taxes and surcharges as well as provisions for insurance claims) dividing by operating income. Since 2017, the numerator has not included depreciation of fixed assets leased out under operating leases and investment properties, and the indicators for the corresponding period of the previous year have been adjusted accordingly (in 2016 before adjustment: 27.84%).

(2) As at 31 December 2017, the Group's capital adequacy ratio and Tier 1 capital adequacy ratio under the weighted approach were 12.66% and 10.81%, respectively.

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

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

2.3 Five-year financial summary

(in millions of RMB)	2017	2016	2015	2014	2013
Results for the year					
Net operating income	**221,037**	210,270	202,302	166,525	133,118
Operating expenses[1]	**70,431**	65,148	67,957	61,413	54,475
Impairment losses on assets	**59,926**	66,159	59,266	31,681	10,218
Profit before tax	**90,680**	78,963	75,079	73,431	68,425
Net profit attributable to shareholders of the Bank	**70,150**	62,081	57,696	55,911	51,743
(RMB)					
Per share					
Dividend	**0.84**	0.74	0.69	0.67	0.62
Basic earnings attributable to ordinary shareholders of the Bank	**2.78**	2.46	2.29	2.22	2.30
Diluted earnings attributable to ordinary shareholders of the Bank	**2.78**	2.46	2.29	2.22	2.30
Year-end net assets attributable to ordinary shareholders of the Bank	**17.69**	15.95	14.31	12.47	10.53
(in millions of RMB)					
Year end					
Share capital	**25,220**	25,220	25,220	25,220	25,220
Total shareholders' equity	**483,392**	403,362	361,758	315,060	265,956
Total liabilities	**5,814,246**	5,538,949	5,113,220	4,416,769	3,750,443
Deposits from customers	**4,064,345**	3,802,049	3,571,698	3,304,438	2,775,276
Total assets	**6,297,638**	5,942,311	5,474,978	4,731,829	4,016,399
Net loans and advances to customers[2]	**3,414,612**	3,151,649	2,739,444	2,448,754	2,148,330
(%)					
Key financial ratios					
Return on average assets attributable to shareholders of the Bank	**1.15**	1.09	1.13	1.28	1.39
Return on average equity attributable to ordinary shareholders of the Bank	**16.54**	16.27	17.09	19.28	22.22
Cost-to-income ratio	**30.21**	27.60	27.55	30.42	34.23
Non-performing loan ratio	**1.61**	1.87	1.68	1.11	0.83
Tier 1 capital adequacy ratio under the advanced approach	**13.02**	11.54	10.83	10.44	/
Capital adequacy ratio under the advanced approach	**15.48**	13.33	12.57	12.38	/

Notes: (1) "Provisions for insurance claims" was included into "operating expenses" in the consolidated statement of profit or loss for the year, and was not accounted for separately. The figures of "operating expenses items" for the previous years have been adjusted on the same calibre.

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

Report of the Board of Directors

3.1 Analysis of the overall operation

In 2017, confronted with cumulative influence of external conditions such as the macro-economic downturn and bottoming-out, the economic deleveraging and stringent financial regulation, the Group continued to implement its strategic direction and positioning of "Light-operation Bank" and "One Body with Two Wings" by carrying out various businesses in a proactive and sound manner. Our overall operation continued to improve with a number of indicators outperforming our peers. The dynamic and balanced development of "Quality, Efficiency and Scale" was achieved, which were reflected mainly in the following aspects:

Earnings increased steadily. In 2017, the Group realised a net profit attributable to shareholders of the Bank of RMB70.150 billion, representing a year-on-year increase of 13.00%; the net interest income was RMB144.852 billion, representing a year-on-year increase of 7.62%; the net non-interest income was RMB76.185 billion, representing a year-on-year increase of 0.67%. The return on average asset (ROAA) and return on average equity (ROAE) attributable to ordinary shareholders of the Bank were 1.15% and 16.54%, up by 0.06 percentage point and 0.27 percentage point from the previous year, respectively.

The scale of assets and liabilities expanded steadily. As at the end of 2017, the Group's total assets amounted to RMB6,297.638 billion, representing an increase of 5.98% as compared with that at the end of the previous year. The total loans and advances to customers amounted to RMB3,565.044 billion, representing an increase of 9.30% as compared with that at the end of the previous year. Total liabilities amounted to RMB5,814.246 billion, representing an increase of 4.97% as compared with that at the end of the previous year. Total deposits from customers amounted to RMB4,064.345 billion, representing an increase of 6.90% as compared with that at the end of the previous year.

The non-performing loans decreased and the allowance coverage ratio remained solid. As at the end of 2017, the Group had total non-performing loans of RMB57.393 billion, representing a decrease of RMB3.728 billion as compared with the end of the previous year. The non-performing loan ratio was 1.61%, down by 0.26 percentage point as compared with the end of the previous year. The non-performing loan allowance coverage ratio was 262.11%, representing an increase of 82.09 percentage points as compared with the end of the previous year.

3.2 Analysis of income statement

3.2.1 Financial highlights

In 2017, the Group realised a profit before tax of RMB90.680 billion, representing a year-on-year increase of 14.84%. The effective income tax rate was 22.10%, representing a year-on-year increase of 1.10 percentage points. The following table sets out the changes in major income/loss items of the Group for 2017.

(in millions of RMB)	2017	2016	Changes
Net interest income	**144,852**	134,595	10,257
Net fee and commission income	**64,018**	60,865	3,153
Other net income	**11,169**	14,489	(3,320)
Operating expenses	**(70,431)**	(65,148)	(5,283)
Share of profits of associates and joint ventures	**998**	321	677
Impairment losses on assets	**(59,926)**	(66,159)	6,233
Profit before tax expenses	**90,680**	78,963	11,717
Income tax	**(20,042)**	(16,583)	(3,459)
Net profit	**70,638**	62,380	8,258
Net profit attributable to shareholders of the Bank	**70,150**	62,081	8,069

3.2.2 Net operating income

In 2017, the net operating income of the Group was RMB221.037 billion, representing a year-on-year increase of 5.12%. The net interest income accounted for 65.53% of the total net operating income, the net non-interest income accounted for 34.47% of the total net operating income, representing a year-on-year decrease of 1.52 percentage points.

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

(%)	2017	2016	2015	2014	2013
Net interest income	65.53	64.01	68.01	70.38	74.30
Net fee and commission income	28.96	28.95	26.20	23.72	21.92
Other net income	5.05	6.89	5.72	5.81	3.71
Share of profits of associates and joint ventures	0.46	0.15	0.07	0.09	0.07
Total	100.00	100.00	100.00	100.00	100.00

3.2.3 Interest income

In 2017, the Group recorded an interest income of RMB242.005 billion, representing a year-on-year increase of 12.31%, mainly due to the increase in assets, and increased yield of interest-earning assets brought by the continuous optimisation of asset structure as well as improvement in risk pricing. Interest income from loans and advances continued to be the biggest component of the interest income of the Group.

Interest income from loans and advances

In 2017, the interest income from loans and advances of the Group was RMB168.858 billion, representing a year-on-year increase of 11.65%.

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

	2017			2016		
(in millions of RMB, except for percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,650,406	65,864	3.99	1,526,315	64,829	4.25
Retail loans	1,694,059	98,386	5.81	1,362,929	82,573	6.06
Discounted bills	164,005	4,608	2.81	186,367	3,834	2.06
Loans and advances	3,508,470	168,858	4.81	3,075,611	151,236	4.92

In 2017, from the perspective of the tenor structure of loans and advances of the Company, the average balance of short-term loans was RMB1,470.191 billion with the interest income amounting to RMB81.338 billion, and the average yield reached 5.53%; the average balance of medium- to long-term loans was RMB1,783.211 billion with the interest income amounting to RMB78.263 billion, and the average yield reached 4.39%. The average yield of short-term loans was higher than that of medium- to long-term loans, which was attributable to the higher yield of credit card overdrafts and micro-finance loans in short-term loans.

Interest income from investments

In 2017, the interest income from investments of the Group was RMB52.042 billion, up by 13.83% as compared with the previous year, and the average yield of investments was 3.63%, up by 0.11 percentage point as compared with the previous year.

Interest income from placements with banks and other financial institutions

In 2017, the interest income of the Group from placements with banks and other financial institutions was RMB12.426 billion, up by 20.01% as compared with the previous year, and the average yield for placements with banks and other financial institutions was 2.71%, up by 0.42 percentage point as compared with the previous year, which was primarily attributable to the increase in market interest rate, driving up the yield for placements with banks and other financial institutions.

3.2.4 Interest expense

In 2017, the interest expense of the Group was RMB97.153 billion, representing an increase of 20.11% as compared with the previous year, which was primarily attributable to the increase in market interest rate, resulting in the rapid increase in cost ratios of interbank liabilities and interbank certificates of deposits.

Interest expense on deposits from customers

In 2017, the Group's interest expense on deposits from customers was RMB50.329 billion, up by 9.41% as compared with the previous year, which was primarily attributable to the increase in scale of deposits. Influenced by the structural optimisation and the effective control and management of pricing, the overall average cost ratios for deposits remained at the same level as compared with the last year.

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

	2017			2016		
(in millions of RMB, except for percentages)	Average balance	Interest expenses	Average cost ratio (%)	Average balance	Interest expenses	Average cost ratio (%)
Deposits from corporate customers						
Demand	1,483,512	10,794	0.73	1,324,457	8,805	0.66
Time	1,182,334	29,089	2.46	1,080,128	26,233	2.43
Subtotal	2,665,846	39,883	1.50	2,404,585	35,038	1.46
Deposits from retail customers						
Demand	968,069	3,600	0.37	875,029	3,275	0.37
Time	331,547	6,846	2.06	340,089	7,687	2.26
Subtotal	1,299,616	10,446	0.80	1,215,118	10,962	0.90
Total deposits from customers	3,965,462	50,329	1.27	3,619,703	46,000	1.27

Interest expense on placements from banks and other financial institutions

In 2017, the interest expense of the Group on placements from banks and other financial institutions amounted to RMB24.138 billion, representing an increase of 19.68% as compared with the previous year, which was primarily attributable to the increase in the interest rate of inter-bank borrowing.

Interest expense on debt securities issued

In 2017, the interest expense on debt securities issued of the Group amounted to RMB13.436 billion, representing an increase of 35.38% as compared with the previous year, which was primarily attributable to the increase in the volume of debt securities issued.

3.2.5 Net interest income

In 2017, the Group's net interest income amounted to RMB144.852 billion, representing a year-on-year increase of 7.62%.

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

	2017			2016		
(in millions of RMB, except for percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances	3,508,470	168,858	4.81	3,075,611	151,236	4.92
Investments	1,432,408	52,042	3.63	1,300,604	45,721	3.52
Balances with the Central Bank	566,594	8,679	1.53	557,347	8,170	1.47
Balances and placements with banks and other financial institutions	459,129	12,426	2.71	451,820	10,354	2.29
Total	5,966,601	242,005	4.06	5,385,382	215,481	4.00

(in millions of RMB, except for percentages)	Average balance	Interest expenses	Average cost ratio (%)	Average balance	Interest expenses	Average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	3,965,462	50,329	1.27	3,619,703	46,000	1.27
Deposits and placements from banks and other financial institutions	880,787	24,138	2.74	873,695	20,168	2.31
Debt securities issued	339,320	13,436	3.96	301,430	9,925	3.29
Borrowings from the Central Bank	305,886	9,250	3.02	177,449	4,793	2.70
Total	5,491,455	97,153	1.77	4,972,277	80,886	1.63
Net interest income	/	144,852	/	/	134,595	/
Net interest spread	/	/	2.29	/	/	2.37
Net interest margin	/	/	2.43	/	/	2.50

In 2017, the average yield of the interest-earning assets was 4.06%, while the average cost ratio of interest-bearing liabilities was 1.77%, up by 6 basis points and 14 basis points respectively as compared with the previous year. Due to the impact of change from business tax to value-added tax and the rise in interest rates in the liabilities market, the increase in the average yield of the interest-earning assets was lower than the increase in the average cost ratio of interest-bearing liabilities, resulting in slight decrease of net interest margin. In 2017, the net interest spread and net interest margin of the Group were 2.29% and 2.43% respectively, down by 8 basis points and 7 basis points respectively as compared with the previous year.

The following table sets forth, for the periods indicated, the breakdown of changes in interest income and interest expenses due to changes in volumes and interest rates of the Group. Changes in volume are measured by changes in average balances (daily average balance), while changes in interest rate are measured by changes in the average interest rates; the changes in interest income and interest expenses due to changes in both volume and interest rate have been included in the amount of changes in interest income and interest expenses due to changes in volume.

	2017 compared with 2016		
	Increase (decrease) due to		Net increase
(in millions of RMB)	Volume	Interest rates	(decrease)
Assets			
Loans and advances	20,833	(3,211)	17,622
Investments	4,789	1,532	6,321
Balances with the Central Bank	142	367	509
Balances and placements with banks and other financial institutions	198	1,874	2,072
Changes in interest income	25,962	562	26,524
Liabilities			
Deposits from customers	4,388	(59)	4,329
Deposits and placements from banks and other financial institutions	194	3,776	3,970
Debt securities issued	1,500	2,011	3,511
Borrowings from the Central Bank	3,884	573	4,457
Changes in interest expense	9,966	6,301	16,267
Changes in net interest income	15,996	(5,739)	10,257

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

	July to September 2017			October to December 2017		
(in millions of RMB, except for percentages)	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets						
Loans and advances	3,583,633	43,037	4.76	3,591,230	44,231	4.89
Investments	1,466,636	13,662	3.70	1,434,157	13,727	3.80
Balances with the Central Bank	558,518	2,173	1.54	571,015	2,227	1.55
Balances and placements with banks and other financial institutions	417,916	2,743	2.60	495,855	3,812	3.05
Total	6,026,703	61,615	4.06	6,092,257	63,997	4.17

(in millions of RMB, except for percentages)	July to September 2017 Average balance	Interest expenses	Annualised average cost ratio (%)	October to December 2017 Average balance	Interest expenses	Annualised average cost ratio (%)
Interest-bearing liabilities						
Deposits from customers	3,977,824	12,689	1.27	3,991,193	13,424	1.33
Deposits and placements from banks and other financial institutions	916,791	6,400	2.77	871,468	6,566	2.99
Debt securities issued	371,575	3,793	4.05	338,289	3,660	4.29
Borrowings from the Central Bank	277,455	2,244	3.21	374,688	2,880	3.05
Total	**5,543,645**	**25,126**	**1.80**	**5,575,638**	**26,530**	**1.89**
Net interest income	/	36,489	/	/	37,467	/
Net interest spread	/	/	2.26	/	/	2.28
Net interest margin	/	/	2.40	/	/	2.44

In the fourth quarter of 2017, due to the impact of the increased risk pricing, increased deposits volume and optimised liabilities structure, the net interest spread of the Group was 2.28%, up by 2 basis points as compared with the third quarter of 2017. The annualised average yield of the interest-earning assets was 4.17%, up by 11 basis points as compared with the third quarter of 2017 while the annualised average cost ratio of interest-bearing liabilities was 1.89%, up by 9 basis points as compared with the third quarter of 2017.

In the fourth quarter of 2017, the net interest margin of the Group was 2.44%, up by 4 basis points as compared with the third quarter of 2017.

3.2.6 Net non-interest income

In 2017, the Group recorded a net non-interest income of RMB76.185 billion, representing an increase of 0.67% as compared with the previous year. The components are as follows:

Net fee and commission income amounted to RMB64.018 billion, representing an increase of 5.18% as compared with the previous year. Among which, bank card fees increased by RMB2.928 billion or 26.42% as compared with the previous year, which was primarily attributable to the increase in UnionPay POS agency service income; remittance and settlement fees rose by RMB3.747 billion or 57.42% as compared with the previous year, which was primarily attributable to the increase in the income of e-payment; commissions on custody and other fiduciary activities decreased by RMB570 million or 2.44% as compared with the previous year. Among which, income from entrusted wealth management decreased by RMB2.106 billion, custodian fee income increased by RMB562 million and income from agency distribution of trust schemes increased by RMB267 million, as compared with the previous year.

Other net income amounted to RMB11.169 billion, representing a decrease of 22.91% as compared with the previous year. Among which, net investment income was RMB5.207 billion, decreased by RMB6.425 billion or 55.24% as compared with the previous year, which was primarily attributable to the decrease in bills spread income, the spread of spot precious metal transaction and the investment gains from available-for-sale financial assets; other net income amounted to RMB3.653 billion, increased by RMB1.142 billion or 45.48% as compared with the previous year, which was primarily attributable to the increase in the income from leasing business; the net gains/(losses) from fair value changes was RMB375 million, representing an increase of RMB2.886 billion as compared with the previous year, which was primarily attributable to the increase in bonds, spot precious metal positions and valuation gains/(losses) of their relevant derivatives.

Among the business segments, the net non-interest income from retail finance amounted to RMB37.425 billion, representing an increase of 14.46% as compared with the previous year and accounting for 49.12% of the Group's net non-interest income; the net non-interest income from wholesale finance amounted to RMB30.490 billion, representing a decrease of 14.23% as compared with the previous year and accounting for 40.02% of the Group's net non-interest income; the net non-interest income from other businesses amounted to RMB8.270 billion, representing an increase of 11.29% as compared with the previous year and accounting for 10.86% of the Group's net non-interest income.

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

(in millions of RMB)	2017	2016
Fee and commission income	**69,908**	66,003
– Bank card fees	**14,011**	11,083
– Remittance and settlement fees	**10,273**	6,526
– Agency services fees	**12,627**	13,121
– Commissions from credit commitment and loan business	**3,712**	4,038
– Commissions on trust and fiduciary activities	**22,788**	23,358
– Other	**6,497**	7,877
Less: fees and commission expense	**(5,890)**	(5,138)
Net fee and commission income	**64,018**	60,865
Other net non-interest income	**12,167**	14,810
– Other net income	**11,169**	14,489
– Net gains/(losses) from fair value changes	**375**	(2,511)
– Net investment income	**5,207**	11,632
– Exchange gain	**1,934**	2,857
– Other net operating income	**3,653**	2,511
– Share of profits of associates and joint ventures	**998**	321
Total net non-interest income	**76,185**	75,675

3.2.7 Operating expenses

In 2017, the Group's operating expenses amounted to RMB70.431 billion, representing an increase of 8.11% as compared with the previous year calculated at the same statistical calibre. The cost-to-income ratio was 30.21%, representing an increase of 2.61 percentage points as compared with the previous year calculated at the same statistical calibre, which is mainly attributable to the following reasons. Firstly, in supporting of the strategic implementation of the "Light-operation Bank" and "One Body with Two Wings", total investment in labour costs was increased, so as to incentivise and retain talents. Secondly, the Company stepped up the implementation of its innovation-driven development strategies, increased its investments in IT facilities and took its 30th anniversary and the 15th anniversary of credit card issuing as opportunities to increase its business promotion efforts, thus further consolidating the foundation for business development. Thirdly, the impact of change from business tax to value-added tax on the income persisted. The Company's cost-to-income ratio was 30.28%, up by 2.77 percentage points as compared with the previous year.

During the reporting period, staff costs of the Group increased by 20.42% as compared with the previous year. Other general and administrative expenses increased by 10.75% as compared with the previous year. Depreciation of fixed assets and investment properties, amortisation charges of intangible assets and rental expenses increased by 18.08%, 27.50% and 1.85% respectively as compared with the previous year. The Company has always attached great importance to investments in research and development. In 2017, our research and development expenses amounted to RMB4.741 billion, representing an increase of 8.74% as compared with the previous year. By taking various measures such as improvement of budgeting method for expenses, optimisation of resources allocation and enhancement of daily expense management, the Group further enhanced expense management, effectively improved cost efficiency and better utilised operating expenses for business development.

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

(in millions of RMB)	2017	2016
Staff costs	**39,512**	32,811
Taxes and surcharges	**2,152**	6,362
Depreciation of fixed assets and investment properties	**5,062**	4,287
Amortisation charges of intangible assets	**714**	560
Rental expenses	**4,189**	4,113
Other general and administrative expenses	**18,570**	16,767
Provisions for insurance claims	**232**	248
Total	**70,431**	65,148

3.2.8 Impairment losses

In 2017, impairment losses on assets of the Group were RMB59.926 billion, representing a year-on-year decrease of 9.42%. The following table sets forth, for the periods indicated, the principal components of impairment losses on assets of the Group.

(in millions of RMB)	2017	2016
– Loans and advances to customers	60,052	64,560
– Investments	(929)	(607)
– Amounts due from banks and other financial institutions	121	507
– Other assets	682	1,699
Total impairment losses	59,926	66,159

Impairment losses on loans and advances were the largest component of impairment losses on assets. In 2017, impairment losses on loans and advances were RMB60.052 billion, representing a decrease of 6.98% as compared with the previous year, which was mainly due to the improvement in asset quality resulting in decrease of provision. For details of the provision for impairment losses on loans, please refer to the section headed "Analysis of Loan Quality" in this chapter.

3.3 Analysis of balance sheet

3.3.1 Assets

As at 31 December 2017, the total assets of the Group amounted to RMB6,297.638 billion, representing an increase of 5.98% as compared with the end of the previous year, which was mainly attributable to the increase in loans and advances to customers, bond investments and other businesses of the Group.

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

	31 December 2017		31 December 2016	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Total loans and advances to customers	3,565,044	56.61	3,261,681	54.89
Provision for impairment losses on loans	(150,432)	(2.39)	(110,032)	(1.85)
Net loans and advances to customers	3,414,612	54.22	3,151,649	53.04
Investment securities and other financial assets	1,602,351	25.44	1,463,322	24.63
Cash, precious metals and balances with Central Bank	625,728	9.94	600,510	10.11
Balances with banks and other financial institutions	76,918	1.22	103,013	1.73
Placements with banks and other financial institutions and amounts held under resale agreement	407,178	6.47	478,950	8.06
Goodwill	9,954	0.16	9,954	0.17
Other assets (note)	160,897	2.55	134,913	2.26
Total assets	6,297,638	100.00	5,942,311	100.00

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

3.3.1.1 Loans and advances

As at 31 December 2017, total loans and advances of the Group amounted to RMB3,565.044 billion, representing an increase of 9.30% as compared with the end of the previous year; total loans and advances accounted for 56.61% of the total assets, representing an increase of 1.72 percentage points as compared with the end of the previous year. For details of the loans and advances of the Group, please refer to "Analysis of Loan Quality" in this chapter.

3.3.1.2 Investment securities and other financial assets

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

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

(in millions of RMB, except for percentages)	31 December 2017 Amount	31 December 2017 Percentage of the total (%)	31 December 2016 Amount	31 December 2016 Percentage of the total (%)
Financial assets at fair value through profit or loss of the current period	64,796	4.04	55,972	3.82
Available-for-sale financial assets	383,101	23.91	389,138	26.59
Held-to-maturity investments	558,218	34.84	477,064	32.60
Investments classified as receivables	572,241	35.71	528,748	36.13
Investments in joint ventures and associates	5,079	0.32	3,712	0.27
Derivative financial assets	18,916	1.18	8,688	0.59
Total investment securities and other financial assets	1,602,351	100.00	1,463,322	100.00

Financial assets at fair value through profit or loss of the current period

The Group's financial assets at fair value through profit or loss was RMB64.796 billion for the year ended 31 December 2017, increased by 15.77% as compared with the end of last year. Such investments were made mainly to seize the opportunities for transactions in the bond market. As a result of the deleverage policy, favourable macro-economic situations, expected rebound of inflation and changes of market environment, in 2017, the market value of bonds held for trading was affected to a certain extent. The Group, through strengthening market research, adopted a robust trading strategy that was aligned with market situations. Scaling down the duration and size for trading accounts in a proactive manner, the Group adopted interest rates derivatives for hedging purpose. The Group proactively conducted spread transactions of bonds and interest rate swaps while moderately reducing trading exposure. Therefore, the overall impact was controllable. For details, please refer to Note 21(a) to the financial report "Financial assets at fair value through profit or loss".

Available-for-sale financial assets

As at 31 December 2017, the net value of available-for-sale financial assets of the Group was RMB383.101 billion, representing a decrease of 1.55% as compared with that at the end of the previous year. This category of investments was made mainly for the purpose of improving operation performance. In 2017, the Chinese economy maintained good momentum of development, and the robustness and quality of economic growth have been improved as compare with the past. Affected by the changes in the market environment, the interest rate of the RMB bond market rose in full swing and the credit spread was relaxed with turbulence. The Company closely followed the market changes, proactively seized the opportunities in the medium-term spread transactions, scaled up the duration upon the increase of interest rates, and adjusted the mix and structure of existing portfolio in a timely manner, so as to optimise the composition of assets and liabilities. For details, please refer to Note 21(b) to the financial report "Available-for-sale financial assets".

Held-to-maturity investments

As at 31 December 2017, the net value of held-to-maturity investments of the Group was RMB558.218 billion, representing an increase of 17.01% as compared with that at the end of the previous year. This category of investments was held on a long-term basis for the strategic allocation of assets and liabilities of the Group, based on the requirements of interest rate risk management of bank accounts and liquidity management, while taking into account the benefits and risks. The bond investments were made mainly in the bonds issued by the government, policy banks, etc. In 2017, to facilitate the replacement of local government debts, and in consideration of the comprehensive operating requirements of the whole Bank, the increase in held-to-maturity investments by the Group primarily focused on local government bonds. For details, please refer to Note 21(c) to the financial report "Held-to-maturity investments".

Debt securities classified as receivables

Debt securities classified as receivables are bond investments without active market prices and investments in non-standard debt securities held by the Group. As at 31 December 2017, the Group's net debt securities classified as receivables amounted to RMB572.241 billion, representing an increase of 8.23% as compared with the end of the previous year, which was mainly attributable to an increase in the investment in non-standard debt securities. For details, please refer to Note 21(d) to the financial report "Debt securities classified as receivables". Please refer to Section 3.9.1 of this report for details of the investment in non-standard debt securities of the Company.

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

(in millions of RMB)	31 December 2017	31 December 2016
Official authorities (note)	497,260	428,932
Policy banks	258,213	264,317
Commercial banks and other financial institutions	151,101	139,628
Others (note)	69,826	68,291
Total bond investment	976,400	901,168

Note: "Official authorities" include the Ministry of Finance of the PRC, local governments and the Central Bank; "Others" mainly refer to enterprises.

Interest in joint ventures and associates

As at 31 December 2017, the Group had interest of RMB5.059 billion in joint ventures, representing an increase of RMB1.429 billion or 39.37% as compared with that at the end of the previous year, which was mainly attributable to the additional capital investment of RMB600 million made by the Group in a joint venture, Merchants Union Consumer Finance Co., Ltd., and the increase in its interests in joint ventures in 2017. As at the end of the reporting period, the Group's balance of provision for impairment losses on interest in joint ventures and associates was zero. For details, please refer to Note 23 to the financial report "Interest in joint ventures" and Note 24 "Interest in associates".

Derivative financial instruments

As at 31 December 2017, the major categories and amount of derivative financial instruments held by the Group are indicated as in the following table. For details, please refer to Note 56(f) to the financial report "Risk Management – Use of derivatives".

	31 December 2017			31 December 2016		
	Notional amount	Fair value		Notional amount	Fair value	
(in millions of RMB)		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	2,073,724	2,249	(1,898)	1,410,276	599	(450)
Currency derivatives	1,305,784	16,345	(19,636)	1,257,163	8,022	(10,634)
Other derivatives	108,927	322	(323)	335	67	(68)
Total	3,488,435	18,916	(21,857)	2,667,774	8,688	(11,152)

In 2017, with the accelerated marketisation of RMB exchange rates, the central parity rate pricing mechanism was further improved, and due to increased volatility between RMB central parity rate and transaction price, customers had an increasing demand for using derivatives to hedge exchange rate risks, leading to the increasingly active transactions in the interbank foreign exchange market. The Group continued to capitalise on the professional advantages of exchange rates and derivative transactions, grasped the appropriate trading timing for exchange rate fluctuations, actively used interest rate swap and other derivatives to hedge risks, and vigorously expanded the foreign exchange trading for customers. As a result, the Group's foreign exchange trading for the proprietary purpose and its customers maintained a continuous growth.

3.3.1.3 Goodwill

In compliance with the PRC enterprise accounting principles, at the end of 2017, the Group conducted an impairment test on the goodwill arising from the acquisition of WLB, China Merchants Fund and other companies and determined that provision for impairment was not necessary for the current year. As at 31 December 2017, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.954 billion.

3.3.2 Liabilities

As at 31 December 2017, the total liabilities of the Group amounted to RMB5,814.246 billion, representing an increase of 4.97% as compared with the end of the previous year, which was primarily due to the steady growth in deposits from customers.

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

	31 December 2017		31 December 2016	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from customers	4,064,345	69.90	3,802,049	68.64
Deposits from banks and other financial institutions	439,118	7.55	555,607	10.03
Borrowings from the Central Bank	414,838	7.13	330,108	5.96
Placements from banks and other financial institutions	272,734	4.69	248,876	4.49
Financial liabilities at fair value through profit or loss	26,619	0.46	23,576	0.43
Derivative financial liabilities	21,857	0.38	11,152	0.20
Amounts sold under repurchase agreements	125,620	2.16	162,942	2.94
Debt securities issued	296,477	5.10	275,082	4.97
Other liabilities (Note)	152,638	2.63	129,557	2.34
Total liabilities	5,814,246	100.00	5,538,949	100.00

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

Deposits from customers

As at 31 December 2017, total deposits from customers of the Group amounted to RMB4,064.345 billion, representing an increase of 6.90% as compared with the end of the previous year. Deposits from customers accounted for 69.90% of the total liabilities of the Group, being the major funding source of the Group.

The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

	31 December 2017		31 December 2016	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from corporate customers				
Demand	1,581,802	38.92	1,441,225	37.91
Time	1,144,021	28.15	1,076,266	28.30
Subtotal	2,725,823	67.07	2,517,491	66.21
Deposits from retail customers				
Demand	972,291	23.92	951,615	25.03
Time	366,231	9.01	332,943	8.76
Subtotal	1,338,522	32.93	1,284,558	33.79
Total deposits from customers	4,064,345	100.00	3,802,049	100.00

As at 31 December 2017, the percentage of demand deposits to total deposits from customers of the Group was 62.84%, representing a decrease of 0.10 percentage point as compared with the end of the previous year. Among which, the corporate demand deposits accounted for 58.03% of the corporate deposits, representing an increase of 0.78 percentage point as compared with that at the end of the previous year, and the retail demand deposits accounted for 72.64% of the retail deposits, representing a decrease of 1.44 percentage points as compared with that at the end of the previous year.

3.3.3 Shareholders' equity

As at 31 December 2017, the shareholders' equity of the Group was RMB483.392 billion, representing an increase of 19.84% as compared with the end of the previous year. Equity attributable to shareholders of the Bank was RMB480.210 billion, representing an increase of 19.35% as compared with the end of the previous year. Among which, retained profits amounted to RMB241.063 billion, representing an increase of 21.07% as compared with the end of the previous year due to the realisation of net profit in the current year and the factor of profit distribution. Investment revaluation reserve amounted to RMB-3.812 billion, mainly due to a decrease of valuation in the bond market.

3.4 Analysis of loan quality

During the reporting period, the Group saw a steady growth in the volume of credit assets and a decrease in the non-performing loan ratio. The allowance coverage ratio remained solid, and our risk loss endurance capability was further improved. As at 31 December 2017, total loans and advances to customers of the Group were RMB3,565.044 billion, representing an increase of 9.30% as compared with the end of the previous year; the non-performing loan ratio was 1.61%, down by 0.26 percentage point from the end of the previous year; the non-performing loan allowance coverage ratio was 262.11%, representing an increase of 82.09 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.22%, representing an increase of 0.85 percentage point as compared with the end of the previous year.

3.4.1 Distribution of loans by 5-tier loan classification

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

	31 December 2017		31 December 2016	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Normal	3,450,450	96.79	3,132,460	96.04
Special mention	57,201	1.60	68,100	2.09
Substandard	17,100	0.48	24,309	0.74
Doubtful	21,577	0.61	22,296	0.68
Loss	18,716	0.52	14,516	0.45
Total loans and advances to customers	3,565,044	100.00	3,261,681	100.00
Total non-performing loans	57,393	1.61	61,121	1.87

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. As at the end of the reporting period, the total non-performing loans of the Group amounted to RMB57.393 billion, representing a decrease of 6.10% as compared with the end of the previous year. In particular, the decrease in non-performing loans was mainly due to the decrease in substandard loans. As at the end of the period, the proportion of substandard loans decreased by 0.26 percentage point to 0.48%. As at the end of the period, the special mention loans amounted to RMB57.201 billion, representing a decrease of 16.00% as compared with that at the end of the previous year, and accounting for 1.60% of the total loans, representing a decrease of 0.49 percentage point as compared with that at the end of the previous year.

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

	31 December 2017				31 December 2016			
(in millions of RMB, except for percentages)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (1)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (1)
Corporate Loans	1,663,861	46.67	41,522	2.50	1,566,570	48.03	45,719	2.92
Working capital loans	868,844	24.37	27,300	3.14	794,577	24.36	29,064	3.66
Fixed asset loans	397,807	11.16	5,770	1.45	363,802	11.15	5,304	1.46
Trade finance	159,090	4.46	1,516	0.95	192,801	5.91	3,433	1.78
Others(2)	238,120	6.68	6,936	2.91	215,390	6.61	7,918	3.68
Discounted bills(3)	115,888	3.25	–	–	154,517	4.74	–	–
Retail loans	1,785,295	50.08	15,871	0.89	1,540,594	47.23	15,402	1.00
Micro-finance loans	312,716	8.77	5,549	1.77	283,502	8.69	4,629	1.63
Residential mortgage loans	833,410	23.38	2,734	0.33	728,328	22.32	3,023	0.42
Credit card loans	491,383	13.78	5,470	1.11	409,198	12.55	5,717	1.40
Others(4)	147,786	4.15	2,118	1.43	119,566	3.67	2,033	1.70
Total loans and advances to customers	3,565,044	100.00	57,393	1.61	3,261,681	100.00	61,121	1.87

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

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

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

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

In 2017, the Group developed its retail and corporate loan business in a balanced manner and constantly optimised the loan structure. With respect to retail loans, the Group increased the granting of residential mortgage loans for self-occupation housing and credit card loans, and steadily developed the micro-finance loan business. As a result, the percentage of retail loans increased by 2.85 percentage points to 50.08%. As at the end of the reporting period, the non-performing retail loan ratio was 0.89%, down by 0.11 percentage point as compared with the end of the previous year. With respect to corporate loans, the proportion of working capital loans and fixed asset loans both increased slightly, while the proportion of trade finance loans decreased, the non-performing loan ratio of each type of loans showed a decreasing trend, and the asset quality was improved. As at the end of the reporting period, the non-performing corporate loan ratio of the Group was 2.50%, representing a decrease of 0.42 percentage point as compared with the end of the previous year.

3.4.3 Distribution of loans and non-performing loans by industry

	31 December 2017				31 December 2016			
(in millions of RMB, except for percentages)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (1)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (1)
Corporate Loans	1,663,861	46.67	41,522	2.50	1,566,570	48.03	45,719	2.92
Manufacturing	266,072	7.46	17,377	6.53	297,442	9.12	18,970	6.38
Property development	260,991	7.32	3,223	1.23	227,564	6.98	2,292	1.01
Transportation, storage and postal services	230,635	6.47	2,241	0.97	193,829	5.94	1,587	0.82
Wholesale and retail	220,907	6.20	9,121	4.13	228,751	7.01	10,589	4.63
Leasing and commercial services	137,852	3.87	196	0.14	102,469	3.14	129	0.13
Production and supply of electric power, heat, gas and water	128,889	3.62	854	0.66	108,669	3.33	1,088	1.00
Finance	91,579	2.57	20	0.02	80,380	2.46	41	0.05
Construction	85,370	2.39	1,470	1.72	84,673	2.60	1,671	1.97
Information transmission, software and IT service	79,368	2.23	1,391	1.75	77,492	2.38	225	0.29
Water conservancy, environment and public utilities	44,320	1.24	254	0.57	35,243	1.08	216	0.61
Mining	43,297	1.21	4,622	10.68	49,479	1.52	8,163	16.50
Others(2)	74,581	2.09	753	1.01	80,579	2.47	748	0.93
Discounted bills	115,888	3.25	–	–	154,517	4.74	–	–
Retail loans	1,785,295	50.08	15,871	0.89	1,540,594	47.23	15,402	1.00
Total loans and advances to customers	3,565,044	100.00	57,393	1.61	3,261,681	100.00	61,121	1.87

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

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

In 2017, the Group continued to support the development of the real economy, constantly optimised its risk asset portfolio, adhered to the principles of "four qualities", i.e. granting loans to quality industries, quality regions, quality projects and quality customers, and explored the quality credit resources from new industries and new markets such as national strategic emerging industries, modern service industries, advanced manufacturing industries and cultural industries. The Group gave priority to strategic customers at the Head Office and its branches in credit resource allocation, focused on serving the strategic customers at the Head Office and branches, formulated the differential risk prevention and control strategy for key areas such as industries with overcapacity, real estate and local government financing platforms, reduced and withdrew loans granted to customers with high risks such as customers associated with overcapacity and high debt. The Group also optimised the allocation of credit resources so as to maintain an overall balance among risks, revenues and costs.

During the reporting period, the non-performing loans and non-performing loan ratio of the Group both recorded a decrease. The non-performing loans were reduced by RMB3.728 billion as compared with that at the end of the previous year, and the non-performing loan ratio decreased by 0.26 percentage point as compared with that at the end of the previous year. Among which, the non-performing loan ratios related to mining and wholesale and retail decreased by 5.82 percentage points and 0.50 percentage point respectively, and the asset quality was further improved. The non-performing loan ratio of the real estate industry and the information transmission, software and information technology service industry increased by 0.22 percentage point and 1.46 percentage points, respectively, mainly due to the impact of certain large customers. As at the end of the previous year, the non-performing loan ratio of the above two industries was by far less than the average level of corporate loans, and their asset quality has maintained in a good level.

3.4.4 Distribution of loans and non-performing loans by region

	31 December 2017				31 December 2016			
(in millions of RMB, except for percentages)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (note)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (note)
Head Office	596,631	16.74	5,637	0.94	499,102	15.30	5,993	1.20
Yangtze River Delta	735,044	20.62	10,893	1.48	674,209	20.67	11,134	1.65
Bohai Rim	425,602	11.94	7,266	1.71	398,961	12.23	6,427	1.61
Pearl River Delta and West Side of Taiwan Strait	598,374	16.78	8,674	1.45	561,539	17.21	7,082	1.26
North-eastern China	145,204	4.07	4,260	2.93	137,171	4.21	2,987	2.18
Central China	343,343	9.63	6,394	1.86	311,713	9.56	10,128	3.25
Western China	350,991	9.85	12,012	3.42	332,342	10.19	15,999	4.81
Overseas	109,508	3.07	203	0.19	99,149	3.04	–	–
Subsidiaries	260,347	7.30	2,054	0.79	247,495	7.59	1,371	0.55
Total loans and advances to customers	3,565,044	100.00	57,393	1.61	3,261,681	100.00	61,121	1.87

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

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

As at 31 December 2017, the regions where the Company incurred a large volume of non-performing loans were Western China, Yangtze River Delta and Pearl River Delta and West Side of Taiwan Strait, where the non-performing loan ratios of the Company decreased by 1.39 percentage points, decreased by 0.17 percentage point and increased by 0.19 percentage point, respectively as compared with the end of the previous year. During the reporting period, increase in non-performing loans of the Group was related primarily to the Pearl River Delta and West Side of Taiwan Strait, North-eastern China and Bohai Rim. At the same time, due to active adjustment to the credit structure by the Group, the percentages of the balance of loans granted to the above regions were reduced by 0.43 percentage point, 0.14 percentage point and 0.29 percentage point, respectively, during the reporting period.

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

(in millions of RMB, except for percentages)	31 December 2017				31 December 2016			
	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (note)	Loan balance	Percentage of the total (%)	Non-performing loan	Non-performing loan ratio (note)
Credit loans	1,089,261	30.55	7,844	0.72	850,482	26.07	9,223	1.08
Guaranteed loans	418,769	11.75	21,416	5.11	430,410	13.20	23,009	5.35
Collateralised loans	1,550,904	43.50	22,931	1.48	1,428,313	43.79	22,024	1.54
Pledged loans	390,222	10.95	5,202	1.33	397,959	12.20	6,865	1.73
Discounted bills	115,888	3.25	–	–	154,517	4.74	–	–
Total loans and advances to customers	3,565,044	100.00	57,393	1.61	3,261,681	100.00	61,121	1.87

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

As at the end of the reporting period, collateralised and pledged loans increased by 6.29% as compared with the end of the previous year. Guaranteed loans decreased by 2.70% as compared with the end of the previous year while the credit loans increased by 28.08% as compared with the end of the previous year, which was mainly due to the increase in credit card loans.

3.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan amount as at 31 December 2017 (in millions of RMB)	Percentage of net capital (under the advanced approach) (%)	Percentage of total loans (%)
(in millions of RMB, except for percentages)				
A	Wholesale and retail	17,300	3.17	0.49
B	Transportation, storage and postal services	9,700	1.78	0.27
C	Wholesale and retail	7,509	1.37	0.21
D	Transportation, storage and postal services	5,711	1.04	0.16
E	Production and supply of electric power, heating power, gas and water	5,666	1.04	0.16
F	Property development	5,287	0.97	0.15
G	Wholesale and retail	4,935	0.90	0.14
H	Transportation, storage and postal services	4,716	0.86	0.13
I	Transportation, storage and postal services	4,679	0.86	0.13
J	Manufacturing	4,651	0.85	0.13
Total		**70,154**	**12.84**	**1.97**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB17.300 billion, representing 3.17% of the Group's net capital under the advanced approach. The loan balance of the top ten single borrowers totalled RMB70.154 billion, representing 12.84% of the Group's net capital under the advanced approach, 13.02% of the Group's net capital under the weighted approach, and 1.97% of the Group's total loan balance, respectively.

3.4.7 Distribution of loans by overdue term

(in millions of RMB, except for percentages)	31 December 2017 Loan amount	31 December 2017 Percentage of the total (%)	31 December 2016 Loan amount	31 December 2016 Percentage of the total (%)
Overdue within 3 months	**16,178**	**0.46**	22,006	0.68
Overdue from 3 months up to 1 year	**16,824**	**0.47**	24,280	0.74
Overdue from 1 year up to 3 years	**26,093**	**0.73**	21,580	0.66
Overdue more than 3 years	**2,762**	**0.08**	2,013	0.06
Total overdue loans	**61,857**	**1.74**	69,879	2.14
Total loans and advances to customers	**3,565,044**	**100.00**	3,261,681	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB61.857 billion, down by RMB8.022 billion from the end of the previous year and accounting for 1.74% of its total loans, representing a decrease of 0.40 percentage point as compared with the end of the previous year. Among the overdue loans, collateralised and pledged loans accounted for 46.55%, guaranteed loans accounted for 30.26%, while credit loans accounted for 23.19% (the majority of which were overdue loans of credit cards). The Group adopted prudent classification criteria for overdue loans, and the ratio of its non-performing loans to the loans overdue for more than 90 days was 1.26.

3.4.8 Restructured loans

(in millions of RMB, except for percentages)	31 December 2017 Loan amount	31 December 2017 Percentage of the total (%)	31 December 2016 Loan amount	31 December 2016 Percentage of the total (%)
Restructured loans (Note)	**18,009**	**0.51**	16,671	0.51
Of which: restructured loans overdue more than 90 days	**11,293**	**0.32**	8,605	0.26

Note: Represents the restructured non-performing loans.

The Group imposed strict and prudent control over loan restructuring. As at the end of the reporting period, the percentage of the Group's restructured loans to total loans was 0.51%, which was on a par with that for the previous year.

3.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, the balance of repossessed assets of the Group amounted to RMB1.514 billion. After deducting the allowances for impairment losses of RMB646 million, the net repossessed assets amounted to RMB868 million.

3.4.10 Changes in the allowances for impairment losses on loans

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

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

(in millions of RMB)	**2017**	2016
Balance at the beginning of the period	**110,032**	84,842
Charge for the period	**64,450**	67,188
Release for the period	**(4,398)**	(2,628)
Transfer into/(out) for the period	**22**	(5,700)
Unwinding of discount on impaired loans (Note)	**(561)**	(1,001)
Recovery of loans and advances to customers previously written off	**5,519**	2,893
Write-offs	**(24,283)**	(35,942)
Foreign exchange rate movements	**(349)**	380
Balance at the end of the period	**150,432**	110,032

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

The Group continued to adopt a stable and prudent policy in respect of making provisions. As at the end of the reporting period, the balance of allowances for impairment losses on loans of the Group amounted to RMB150.432 billion, representing an increase of RMB40.400 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 262.11%, representing an increase of 82.09 percentage points as compared with the end of the previous year; the loan allowance ratio was 4.22%, representing an increase of 0.85 percentage point as compared with the end of the previous year.

3.5 Analysis of capital adequacy ratio

As at 31 December 2017, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced approach were 15.48% and 13.02%, respectively, representing an increase of 2.82 percentage points and 2.21 percentage points respectively as compared with those under the weighted approach.

(in millions of RMB, except for percentages)	**31 December 2017**	31 December 2016	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
The Group			
Capital adequacy ratios under the advanced approach[1]			
1. Net core Tier 1 capital	**425,689**	388,762	9.50
2. Net Tier 1 capital	**459,782**	388,780	18.26
3. Net capital	**546,534**	449,116	21.69
4. Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**3,291,816**	3,209,980	2.55
Of which: Credit risk weighted assets	**2,848,064**	2,813,611	1.22
Market risk weighted assets	**57,560**	38,073	51.18
Operational risk weighted assets	**386,192**	358,296	7.79
5. Risk-weighted assets (having taken into consideration the floor requirements during the parallel run period)	**3,530,745**	3,368,990	4.80
6. Core Tier 1 capital adequacy ratio	**12.06%**	11.54%	Increased by 0.52 percentage point
7. Tier 1 capital adequacy ratio	**13.02%**	11.54%	Increased by 1.48 percentage points
8. Capital adequacy ratio	**15.48%**	13.33%	Increased by 2.15 percentage points
Information on leverage ratio[2]			
9. Adjusted balance of on- and off-balance sheet assets	**7,309,756**	6,758,093	8.16
10. Leverage ratio	**6.29%**	5.75%	Increased by 0.54 percentage point

Notes:

(1) The "advanced approach" refers to the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by CBRC on 7 June 2012 (same as below). In accordance with the requirements of the advanced approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include China Merchants Bank and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Company shall include all the domestic and overseas branches and sub-branches of China Merchants Bank. As at 31 December 2017, the Group's subsidiaries for calculating its capital adequacy ratio included Wing Lung Bank, CMB International Capital, CMB Financial Leasing and China Merchants Fund. During the transition period when the advanced capital measurement approaches were implemented, a commercial bank shall use the capital floor adjustment coefficients to adjust the amount of its risk-weighted assets multiplying the sum of its minimum capital requirement and reserve capital requirement, total amount of capital deductions and the provision for excessive loan loss which can be included into capital. The capital floor adjustment coefficients shall be 95%, 90% and 80% respectively in the first year, the second year, and the third and subsequent years during the transition period. 2017 is the third year since implementation of the transition period.

(2) Since 2015, the leverage ratio shall be calculated based on the "Measures for Management of the Leverage Ratio of Commercial Banks (Revised)" promulgated by CBRC on 12 February 2015. The leverage ratio of the Group were 6.15%, 5.83% and 6.01% respectively as at the end of the third quarter of 2017, the end of the first half of 2017 and the end of the first quarter of 2017.

As at the end of the reporting period, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the advanced approach were 15.24% and 12.69%, respectively, representing an increase of 3.08 percentage points and 2.39 percentage points respectively as compared with those under the weighted approach.

(in millions of RMB, except for percentages)	**31 December 2017**	31 December 2016	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
The Company			
Capital adequacy ratios under the advanced approach			
1. Net core Tier 1 capital	**371,416**	339,976	9.25
2. Net Tier 1 capital	**402,869**	339,976	18.50
3. Net capital	**483,546**	397,649	21.60
4. Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	**2,945,175**	2,887,494	2.00
Of which: Credit risk weighted assets	**2,531,510**	2,516,838	0.58
Market risk weighted assets	**51,513**	32,258	59.69
Operational risk weighted assets	**362,152**	338,398	7.02
5. Risk-weighted assets (having taken into consideration the floor requirements during the parallel run period)	**3,173,532**	3,061,019	3.68
6. Core Tier 1 capital adequacy ratio	**11.70%**	11.11%	Increased by 0.59 percentage point
7. Tier 1 capital adequacy ratio	**12.69%**	11.11%	Increased by 1.58 percentage points
8. Capital adequacy ratio	**15.24%**	12.99%	Increased by 2.25 percentage points

As at 31 December 2017, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the weighted approach were 12.66% and 10.81% respectively, representing an increase of 0.66 percentage point and 0.72 percentage point, respectively as compared with those at the end of the previous year.

(in millions of RMB, except for percentages)	31 December 2017	31 December 2016	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
The Group			
Capital adequacy ratios under the weighted approach (Note)			
1. Net core Tier 1 capital	**425,689**	388,762	9.50
2. Net Tier 1 capital	**459,782**	388,780	18.26
3. Net capital	**538,761**	462,493	16.49
4. Risk-weighted assets	**4,254,180**	3,852,894	10.42
5. Core Tier 1 capital adequacy ratio	**10.01%**	10.09%	Decreased by 0.08 percentage point
6. Tier 1 capital adequacy ratio	**10.81%**	10.09%	Increased by 0.72 percentage point
7. Capital adequacy ratio	**12.66%**	12.00%	Increased by 0.66 percentage point

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

As at the end of the reporting period, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 12.16% and 10.30% respectively, representing an increase of 0.57 percentage point and 0.67 percentage point, respectively as compared with those at the end of the previous year.

(in millions of RMB, except for percentages)	31 December 2017	31 December 2016	Increase/decrease at the end of the current year as compared with the end of the previous year (%)
The Company			
Capital adequacy ratios under the weighted approach			
1. Net core Tier 1 capital	**371,416**	339,976	9.25
2. Net Tier 1 capital	**402,869**	339,976	18.50
3. Net capital	**475,774**	408,962	16.34
4. Risk-weighted assets	**3,911,286**	3,529,142	10.83
5. Core Tier 1 capital adequacy ratio	**9.50%**	9.63%	Decreased by 0.13 percentage point
6. Tier 1 capital adequacy ratio	**10.30%**	9.63%	Increased by 0.67 percentage point
7. Capital adequacy ratio	**12.16%**	11.59%	Increased by 0.57 percentage point

Balance of credit risk exposures

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

Unit: RMB million	Type of risk exposure	Legal person	Group
Portion covered by the IRB approach	Financial institution	1,120,478	1,120,478
	Corporate	1,815,526	1,815,526
	Retail	2,242,428	2,242,428
	Of which: Residential mortgage exposures	879,892	879,892
	Qualified revolving retail	946,566	946,566
	Other retail	415,970	415,970
Portion not covered by the IRB approach	On-balance sheet	2,055,796	2,432,399
	Off-balance sheet	304,647	315,671
	Counterparty	27,683	31,973

Market risk capital measurement

The Group uses mixed approaches to calculate its market risk capital requirements. Specifically, it uses the internal model approach to calculate the general market risk capital of the Company, and uses the standardised approach to calculate the specific market risk capital of the Company as well as the general market risk capital and specific market risk capital of the affiliated companies. As at the end of 2017, the market risk capital of the Group was RMB4.605 billion, and its risk-weighted assets were RMB57.560 billion. Of which, the general market risk capital calculated under the internal model approach was RMB2.683 billion, and the market risk capital calculated under the standardised approach was RMB1.922 billion.

The Group's market risk capital under the internal model approach was calculated using the market risk value based on 250 days of historical market data, a confidence coefficient of 99% and a holding period of 10 days. The following table sets forth the market risk value indicators of the Group as at the end of 2017:

Unit: RMB million

No.	Item	Distressed risk value during the reporting period	General risk value during the reporting period
1	Average value	478	314
2	Maximum value	1,808	480
3	Minimum value	93	104
4	Value at the end of the period	889	228

3.6 Results of operating segments

Business segments

The principal businesses of the Group include wholesale finance and retail finance. The following table summarises the operating results of each business segment of the Group for the periods indicated.

Items (in millions of RMB)	2017 Profit before tax by business segments	2017 Net operating income	2016 Profit before tax by business segments note	2016 Net operating income
Wholesale finance	36,784	103,015	29,258	102,090
Retail finance	48,415	108,383	45,099	100,190
Other businesses	5,481	9,639	4,606	7,990
Total	90,680	221,037	78,963	210,270

Note: The Group allocated the amount of additional allowance to each business segment since 2017 and the relevant comparable figures and financial indicators have been restated.

During the reporting period, the percentage of profit from retail finance of the Group declined slightly. Profit before tax amounted to RMB48.415 billion, up by 7.35% from the previous year (calculated on the same statistical calibre), accounting for 56.83% of the profit before tax of the business line; net operating income amounted to RMB108.383 billion, up by 8.18% from the previous year, accounting for 49.03% of the operating income of the Group, representing a year-on-year increase of 1.38 percentage points from the previous year. At the same time, the cost-to-income ratio of retail finance business was 36.02%, representing an increase of 1.69 percentage points (calculated on the same statistical calibre).

Geographical segments

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

	Total assets		Total liabilities		Total profit before tax	
	31 December 2017		31 December 2017		2017	
(in millions of RMB, except for percentages)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	2,908,217	46	2,557,785	44	15,387	17
Yangtze River Delta	761,970	12	745,677	13	19,659	22
Bohai Rim	492,441	8	484,410	8	12,080	13
Pearl River Delta and West Side of Taiwan Strait	645,313	10	632,515	11	15,998	18
North-eastern China	151,548	2	150,447	3	1,555	2
Central China	358,334	6	352,226	6	8,108	9
Western China	360,547	6	355,602	6	6,745	7
Overseas	199,836	3	196,693	3	2,071	2
Subsidiaries	419,432	7	338,891	6	9,077	10
Total	6,297,638	100	5,814,246	100	90,680	100

	Total assets		Total liabilities		Total profit before tax	
	31 December 2016		31 December 2016		2016	
(in millions of RMB, except for percentages)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	2,634,760	44	2,313,672	42	43,532	55
Yangtze River Delta	768,653	13	760,973	14	10,312	13
Bohai Rim	465,320	8	461,735	8	5,965	8
Pearl River Delta and West Side of Taiwan Strait	634,092	11	626,656	11	11,856	15
North-eastern China	157,710	3	156,670	3	1,436	2
Central China	353,771	6	354,073	6	634	1
Western China	368,485	6	373,028	7	(3,559)	(5)
Overseas	177,271	3	173,987	3	1,500	2
Subsidiaries	382,249	6	318,155	6	7,287	9
Total	5,942,311	100	5,538,949	100	78,963	100

3.7 Other financial disclosures in accordance with the regulatory requirements

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

The Group's off-balance sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, pending litigations and disputes and other contingent liabilities. The credit commitment is the primary component. As at the end of 2017, the balance of credit commitments was RMB1,407.008 billion. For details of the contingent liabilities and commitments, please refer to "Contingent liabilities and commitments" in Note 54 to the Financial Report.

3.7.2 Outstanding overdue debts

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

The description and data in section 3.8 and below were analysed from the Company's perspective.

3.8 Business development strategies

Continuous implementation of strategic transformation

In 2017, the Company unremittingly promoted its strategic transformation towards "Light-operation Bank" and "One Body with Two Wings" despite the changes in market conditions.

The Company bravely faced the challenges and continued to implement its "Light-operation Bank" strategy. Due to stricter financial regulations, commercial banks were undergoing the transformation of off-balance sheet and witnessing the decline of non-interest income and the incorporation of newly added assets to on-balance sheet. Therefore, a new round of competition was kicked off in the banking industry. From the short-term perspective, the financial indicators of the Company in relation to "Light-operation Bank" were under pressure, namely the proportion of non-interest income that declined as compared with the previous year; the higher growth rate of risk-weighted assets than that of total assets; the cost-to-income ratio that increased as compared with the previous year. However, from a medium- to long-term perspective, the general trend of direct financing will persist. Leveraging on the latest Fintech, banks would be able to offer many additional light-services tools. The Company remained determined in facilitating the strategic layout of "Light-operation Bank". Adhering to the professional operating model of "Light Assets" and "Light Capital", the Company will proactively promote the implementation of "Light Management" and "Light Operation" by leveraging on the cutting-edge technologies.

In 2017, in order to realise the goal of becoming a "Light-operation Bank" within a shorter time, the Company established a "Customer Service System" and a "Customer Relationship Management System" for its wholesale finance business while continuing to develop its retail business, in order to exercise centralised and professional management of its strategic customers at the Head Office and branches, institutional customers, interbank customers and small business customers. As a result, the Company greatly enhanced its professional service and was able to pitch for mass financing projects with its low-capital occupation and knowledge-intensive professional services.

The Company proactively developed its featured businesses and constantly promoted the business model of "One Body with Two Wings". The retail finance, known as the "One Body", rendered stable performance and outperformed market and peers. The retail loans and net operating income respectively accounted for 53.36% of the total loans and 51.28% of the total net operating income of the Bank, and its value contribution increased steadily. In addition, the Company enjoyed a greater leading advantage over its peers in terms of number of the gold card holders/Sunflower customers or above and the Diamond-class customers as well as total assets under management (AUM) for retail customers. The corporate finance and financial institutions finance, known as the "Two Wings", continued to grow against all the odds. The Company made significant breakthroughs in the direct HQ-to-HQ service of the businesses from the PRC ministries, large-sized state-owned enterprises and financial institutions, and successfully expanded its businesses associated with electronic resident health cards, occupational annuity, bid bond for public resource trading, key universities, and tobacco, etc. With the growth in saving deposits slowing down, corporate deposits played an important role in securing the sufficiency of liquidity of the whole Bank, with the real-time and daily average increments both leading among other joint-stock banks. For the last three years, the daily average corporate deposits denominated in RMB increased by more than RMB600.0 billion, with an annual average growth rate of more than 11%. As at the end of the reporting period, the daily average balance of general deposits from institutional customers amounted to RMB652.678 billion, representing a year-on-year increase of 12.95%. The daily average balance of general deposits from the strategic customers of our Head Office amounted to RMB348.288 billion, representing an increase of 19.47% year-on-year.

The Company considered that, as a result of the tightened regulation and technological development, the banking industry in China has started to differentiate. Thanks to our relentless efforts over the past few years, our structural adjustment has been receiving positive results, and the asset quality was also stabilised and improved. CMB has basically become a "Light-operation Bank", and the first half of its transformation has ended successfully. Looking forward, CMB is entering into the second half of its transformation, where the main focus is to become a "Digital Bank". In order to achieve its principal target of "enhancing customer experience", CMB will effect a switch of development momentum while maintaining an optimal balance between efficiency, costs and risks by applying advanced technologies, so as to maximise the effect of "Light Management" and "Light Operation" and eventually become a Light-operation Bank.

Clear Positioning of "Digital Bank"

During the reporting period, the Company regarded Fintech transformation as the most important task in the next three to five years. All the departments across the Bank should use their greatest efforts to build CMB into a "Digital Bank" as an upgrade of "Light-operation Bank". Through comparing with Fintech companies, the Company inflicted fundamental changes in both the concepts and methodologies, and accelerated the transformation of its operating model, so as to accomplish the transformation towards "Digital Bank", with financial technologies playing a fundamental role as the "nuclear power" for the second half of the Company's strategic transformation.

1. Enhancing the basic capabilities with financial technology across the Bank

   In respect of infrastructures, the Company enhanced its IT capabilities by learning from the Fintech companies. In order to transfer its Fintech infrastructures on the Internet, CMB increased its investments in various fields such as mobile technology, Cloud Computing, Big Data, Artificial Intelligence, Internet Security, and Blockchain etc. **In respect of agile business development,** the Company learnt from the Fintech companies and established the dual-model IT research and development system. The Company introduced a project-oriented system, forming a brand new mechanism integrating technology and business. It also continued to deepen the integration of IT and business, enhance business agility, speed up its responses to customers' demands, and enhance its ability to offer new generation of services on a continuous basis. **In respect of its innovation incubation platform,** the Company set up its internal financial technology innovation incubation platform through learning from the innovation mechanisms of the Fintech companies. This platform offered comprehensive assistance to the incubation of financial technology innovation projects and injected new energy and resources to innovation projects. The Company also introduced external financial technologies and strengthened its financial technologies by establishing joint laboratories with technology companies and colleges/universities, or introducing external resources with its Fintech innovation project funds.

2. Promoting "network-based, digitised and intelligence-oriented" operation in retail financial business

   The Company implemented the strategy of "mobile priority", recording more than 45 million active users per month of our retail APPs. The Company actively pushed forward the switching from bank cards to mobile APP for our retail services. Its mobile APPs introduced a new business mode of "outlet + APP + scenario", thereby establishing an integrated online and offline customer management mechanism. From offering customised services on the frontline to implementing automated and intelligent backstage operating procedures, CMB's mobile APPs further enhanced its customers' experience in our retail services. Striving to "become the top APP in consumer finance services", our mobile CMB Life APP continued to promote innovation in mobile consumer finance products, and enhanced the capability in data traffic operations and value output. By encouraging our customers to use our mobile APPs so as to increase the data traffic, the number of active users of our two major APPs reached 45.09 million per month. 40.35% of our cardholders have already switched to mobile banking, while 81% of transactions were carried out on our mobile platform. As a result, the Company accumulated a large amount of traffic data, creating a strong foundation for customer traffic management in the future. At the same time, the Company continued to explore the business innovation of inclusive finance under the "mobile priority" strategy. As at the end of the reporting period, Merchants Union Consumer Finance Company Limited had a total of 16,621,000 approved customers, representing an increase of 135.93% as compared with the end of the previous year. The cumulative loans extended amounted to RMB226.804 billion, representing an increase of 297.36% as compared with the end of the previous year. The balance of loans at the end of the period amounted RMB46.829 billion, representing an increase of 157.46% as compared with the end of the previous year.

   The Company built an intelligence-oriented marketing tool to support its digitised customer traffic management. By integrating data sources from over 390 internal systems and 58 external data sources, the Company created over 3,800 user tags for its retail customers and established a comprehensive view of customers. On such basis, the Company built an intelligence-oriented marketing tool for active marketing and passive marketing, offering real-time recommendations to mobile customers and relationship managers. There were 97 recommendation tags in our mobile APP, offering 7,132 customised product portfolios and recommendations to 130 million persons per day on average. Throughout the year, the system issued over 7,000 customer marketing lists to our relationship managers, with which the marketing events conducted by our relationship managers rose to 1,600 times per month.

The Company built an intelligence-orientated tool for risk control so as to achieve comprehensive digitised decision making in respect of risk control. In respect of decision making on risk exposures, the Company has built a big credit-based decision-making engine for real-time risk exposures and integrated various information resources. With the use of various cutting-edge technologies such as Big Data and Artificial Intelligence, the Company possessed the ability to handle queries in milliseconds and compute billions of data streams. In respect of its anti-fraud efforts, with the use of Artificial Intelligence and other advanced technologies, the previous rule-based model was upgraded to the real-time Big Data anti-fraud model. Model variables have been upgraded to 3,000+ derivative characteristic variables to achieve the capability of computing billions of data streams. The model has proved to be effective, as evidenced by a reduction of 35% in financial losses arising from transfers and payments made by our customers.

3. Upgrading the middle and back offices of the wholesale finance segment for automated and intelligent operation

In respect of its wholesale finance business, the Company currently focuses on enhancing the level of automation and intelligence of the operation support system in the middle and back offices through applying financial technologies, so as to enhance business efficiency and the quality of risk control.

The Company enhanced the level of automation in business processes in the back office through applying financial technologies. Firstly, in respect of the credit handling procedures, a middle office was established for risk management. On the frontline, the Company relied on the "All-in-one Office" mobile application to achieve mobile synergies between relationship managers, key personnel in charge of operation, risk managers, loan approval officers and product managers. In the back office, the Company consolidated and integrated the systems in the middle and back offices. With the application of different technologies such as facial recognition, OCR (optical character recognition) and all-in-one printing & controlling machine, the on-site operations of our frontline staff were simplified, thus improving the efficiency of service provision processes. **Secondly,** in respect of the operational management, the Company took the lead in introducing the RPA (robot process automation) technology into the domestic financial industry to improve the automation level of operation. Based on the analysis of 188 application scenarios with the RPA technology, three scenarios under operational management, including balance check of internal accounts, filing of RMB accounts and online reporting of foreign exchange, were selected for trial operation. As a result, the time spent in processing a single transaction was reduced by 65% to 95%. Subsequently, the implementation of RPA technology will be extended to all operational procedures in the back office.

The Company enhanced the degree of intelligence in business management with the introduction of Big Data and Artificial Intelligence. To further integrate the customer portrait using the Big Data, based on our internal data, the Company expanded the scope to cover the external events of 30 million enterprises, including their records of changes in industrial and commercial registration, bidding and winning of tenders, auctioning of land, news and information, enforcement by courts and investing & financing events, thus enabling continuous collection and distribution of more than 250,000 pieces of information per month on business opportunities, enhancing our ability to form an immediate perception of customers. In respect of customer marketing, with the use of Big Data, the Company conducted digital tracking and analysis of customer information to improve marketing accuracy. In respect of risk monitoring, the Company is trying to introduce Artificial Intelligence and deep learning to build a knowledge map in relation to customers' correlations, thus enabling early warning and monitoring of corporate risks.

4. Creating an "end-to-end" customer journey to enhance customer experience

During the reporting period, the Company shifted its focus back to serving our customers. It established a customer-oriented service system through rebuilding the customer-oriented end-to-end procedures and applying the latest financial technologies. **At the customer engagement level,** we focused on customers' needs and experiences, the O2O scenario service was implemented on online platforms and physical outlets. Meanwhile, by applying the technologies of natural language processing and deep learning, the Company set up a robot service platform. The response rate, timeliness and efficiency of our customer services also saw significant improvement. **At the customer support level,** with the use of Big Data and Artificial Intelligence technologies, the Company set up a more efficient and intelligent service support system to handle the service processes at the front office. On one hand, by applying Big Data and Artificial Intelligence technologies, the Company established a "human + robot" intelligent investment model that allies with domestic market, which enabled us to provide a wider range of customers with professional wealth management and investment consulting services that had a low threshold but high quality. On the other hand, a decision-making model based on Big Data and real-time risk analysis was created to realise one-stop automated credit granting service. Our customers were served more than 400 million times during the year, thus preliminarily realising pure digital delivery of our credit services.

3.9 Changes in the external environment and corresponding measures

3.9.1 Impacts of changes in operating environment and key business concerns

1. Overview of the macroeconomic and financial outlook in 2017

In 2017, the Chinese economy remained resilient in general, achieving an annual economic growth of 6.9%. Fixed-asset investment stabilised with a slowdown trend, and infrastructure construction and real estate investment became major pillars of overall investments throughout the year. Overall investment in the manufacturing sector remained inactive but gradually stabilised as profitability in industrial enterprises improved. The growth in consumption remained stable with a year-on-year increase of 10.2%, with the effects of structural upgrades gradually becoming prominent. As driven by the moderate recovery in the global economy, both imports and exports saw significant rebound from their decline in 2016. The CPI growth in aggregate slightly slowed down to 1.6% as compared with 2016 amidst an environment with moderate inflation. As driven by various factors such as commodity price in global markets and the domestic supply-side reforms, the PPI growth in aggregate significantly picked up as compared with the previous year. The number of new employees in urban areas and the unemployment rate remained stable. As the real economy remained stable, the Central Bank resolved to maintain its prudent monetary policy while exerting more efforts to meet the demands for effective financing in the real economy. The Central Bank also flexibly utilised various monetary policy tools such as deposit reserve ratio cuts, open market operation, medium-term lending facilities (MLF) and pledged supplementary lending (PSL) to maintain adequate liquidity at a reasonable level. Stricter financial regulation had been implemented to safeguard the industry against potential risks in economic and financial operations. The financial system was also enhanced to serve the real economy. At the same time, fiscal policies were proactively implemented in general with ongoing optimisation of the financial mechanisms.

2. Net interest margin

In 2017, the net interest margin of the Company was 2.50%, representing a year-on-year decrease of 5 basis points, primarily due to the impact of change from business tax to value-added tax. If value-added tax revenue was included in income, the net interest margin of the Company remained basically unchanged from the previous year. Overall, due to the steady and neutral monetary policy, the upward momentum of market rates in 2017, a slowdown in the growth of deposits and other factors , both the size and cost of the active liabilities of the Company increased, adding pressure on the net interest margin to a certain extent. In light of the circumstances, the Company has taken the following measures: firstly, the Company optimised its asset structure, further increased granting of loans, especially retail loans to customers, and moderately increased the proportion of retail loans; secondly, the Company improved the risk pricing level, and rode on the upward trend of market rates to improve the return of bills, bonds and inter-bank assets; thirdly, efforts were made to promote the growth of deposits and optimise the deposit structure. While maintaining stable proportion of proprietary deposits, the proportion of demand deposits remained high, thus achieving effective cost control.

In 2018, it is expected that liquidity will maintain a tight balance. Supervision over the financial industry will continue to be strict, while market rates will remain at a high level. In view of the above, commercial banks will face certain challenges in managing the cost of liabilities and net interest margin. Nevertheless, factors including steady growth in the real economy will significantly facilitate the stabilisation of net interest margin level. In 2018, the Company will maintain reasonable asset growth so as to ensure coordinated and steady growth in assets and liabilities. The Company will continue to optimise its asset allocation and utilise funds arising from rate cuts in inclusive finance in a rational manner to enhance its risk pricing capability and improve the comprehensive return on assets. At the same time, the Company will strengthen the operation and expansion of its customer bases, fully promote the steady growth of proprietary deposits, especially low-cost settlement deposits, consolidate the cost advantages at liabilities and maintain a reasonable level of net interest margin despite the negative impacts on the book value of net interest margin brought by the changes in revenue structure due to the substitution of new financial accounting standards.

3. Net non-interest income

During the reporting period, the Company realised net non-interest income of RMB66.147 billion, representing a year-on-year decrease of 2.49%, which accounted for 31.93% of the net operating income, representing a year-on-year decrease of 2.31 percentage points, which was mainly due to the following reasons: firstly, as affected by the tax policies, the amount of direct discounting of bills dropped considerably, and spread income from disposal of bills recorded a year-on-year decrease.; secondly, as affected by the tightening of regulatory policies and impacts of market volatility, the revenue growth of entrusted wealth management services, bond underwriting, financial consultancy and agency distribution of funds was affected; thirdly, the objective impacts of the implementation of policy of change from business tax to value-added tax. Under such policy, the income for 2017 showed the result of price and tax separation upon implementation of the policy of change from business tax to value-added tax, while such policy was not implemented during the first four months of 2016 and tax revenue was included in income.

During the reporting period, despite the slight drop in net non-interest income as compared with the previous year, the Company benefited from the increase of commission income of credit cards and instalment income from merchants, increase of income from Alipay, Cai Fu Tong (財富通) and other online retail business as well as the growth of the size of custody business. Meanwhile, leveraging its distribution capability, the Company took the initiative to seize opportunities arising in the capital market at different phases and the change in residents' investment orientation towards hedging demands under policy guidance, thereby minimising the impacts of external factors on wealth management business. The Company recorded fee and commission income of RMB64.398 billion, representing a year-on-year increase of 6.15%. For key projects, the Company's fee and commission income from wealth management amounted to RMB26.106 billion, representing a year-on-year decrease of 8.41% (of which: income from entrusted wealth management services amounted to RMB12.227 billion, down by 14.69% year-on-year, mainly due to the Company's periodical reduction of the prices of products to benefit its customers during the year, a decrease in the balance of off-balance sheet wealth management products, as well as the completion of the optimization of the accrual accounting of the revenue from the entrusted wealth management services in 2016. Income from agency distribution of insurance policies amounted to RMB5.081 billion, down by 0.55% year-on-year; income from agency distribution of funds amounted to RMB5.044 billion, down by 8.94% year-on-year, which was mainly due to a decrease in the income from agency sales of funds for special accounts as a result of policy adjustments and market fluctuations. Income from agency distribution of trust schemes amounted to RMB3.605 billion, up by 8.00% year-on-year; income from agency distribution of precious metals amounted to RMB149 million; down by 19.02% year-on-year); income from bank card fees amounted to RMB13.914 billion, up by 28.79% year-on-year; income from remittance and settlement fees amounted to RMB10.244 billion, up by 57.62% year-on-year; custodian fee income amounted to RMB4.855 billion, up by 13.38% year-on-year.

In the context of increasingly stringent regulations and high market uncertainty, the pressure on the development of non-interest business will remain high. The Company will firmly adhere to the strategy of "Light-operation Bank" so as to maintain its competitiveness in non-interest business. Specific measures to be implemented include: firstly, the Company will further expand its customer base. The Company will explore a new model for customer management through Fintech to achieve innovative breakthroughs in its customer base development strategy. Secondly, the Company will strengthen its competitive edges in wealth management. By developing an upgraded version of "Machine Gene Investment (摩羯智投)"and other Fintech innovative products, the Company will constantly improve the level of specialisation so as to provide customers with more tailored asset allocation services. At the same time, the Company will rely on its large retail customer base and diversified product portfolio to promote the sustainable development of consumer finance and online consumption payment and settlement business. Thirdly, the Company will continue to strengthen its capabilities in the management and investment of quality assets. Centring on customer management and quality assets management, the Company will proactively grasp the market development opportunities so as to enhance the overall operating standards in businesses such as asset management, investment banking, asset custody and transaction banking, thereby improving its comprehensive income. Fourthly, the Company will continue to abide by the regulatory requirements by strengthening its internal control and compliance management, preventing unregulated fee collections, and avoiding regulatory red flags during business innovation.

4. New policies on asset management business

During the reporting period, the PBOC, the CBRC, the CSRC, the CIRC and the State Administration of Foreign Exchange issued a consultation on the Guidance on Regulating the Asset Management Business of Financial Institutions for Public Comments (Consultation Draft) (關於規範金融機構資產管理業務的指導意見（徵求意見稿)) (hereinafter referred to as the "Guidance"), addressing various issues occurred in asset management industry over the past few years such as unregulated development, investing through multi-layer vehicles and rigid repayment. Based on the same regulatory principle, the Guidance proposed a series of regulatory measures which targeted to resolve the aforesaid issues. The guidance direction was in line with the development pattern of the asset management business, while the measures met the actual needs for business development. The new regulations will play an important role in fostering the asset management business of banks to gear back into their business origin, regulating the development of asset management business, mitigating the risk of the asset management business of banks, and contributing to the real economy in a better way. The final introduction of the Guidance will be a milestone for the standardised development of the asset management business of banks across the industry. Meanwhile, it will also bring great challenges to the transformation, development and income growth of the asset management business of various banks.

The Company highly recognised and firmly supported the Guidance. Prior to the public consultation on the Guidance, we had already adopted a number of measures based on the development pattern of asset management business as well as the development experience in mature overseas markets, embarking on the transformation to net-worth product management, eliminating rigid repayment, enhancing the capabilities in the investment and research of standardised credit assets and equity assets, lowering the financial leveraging level and implementing other transformations in accordance with the relevant regulatory requirements. During the reporting period, the Company continued to promote the transformation of net-worth products. Firstly, as at the end of the reporting period, the balance of net-worth products accounted for 75.81% of that of wealth management products[1], representing an increase of 2.93 percentage points as compared with the end of the previous year. Secondly, the Company strictly regulated the non-standardised credit assets, and increased the proportion of investment in standardised credit assets and equity assets such as bonds and stocks. As at the end of the reporting period, the proportion of investment in standardised credit assets and equity assets increased by 12.50 percentage points as compared with the end of the previous year. Thirdly, in accordance with the policies regarding lowering the financial leveraging level, the Company controlled the increase in the amount of wealth management service. As at the end of the reporting period, the balance of off-balance sheet wealth management products after deducting the balance of on-balance sheet wealth management products and structured deposits decreased by 8.24% as compared with the end of the previous year.

The Company has always attached great importance to business origin and conducted healthy operation of asset management in compliance with the law and regulations. The Company is of the opinion that the opportunities brought to the development of asset management business by the Guidance outweigh the challenges arising thereof. Upon the implementation of the Guidance and ancillary regulatory rules and regulations, the Company will strictly implement all regulatory requirements and continue to be customer-centric, return to its business origin, contribute to the real economy, increase the investment in human resources and Fintech, develop the core competitiveness in investment, research and risk management, and continuously promote the healthy development of the asset management business.

5. The formation and disposal of non-performing assets

As at 31 December 2017, the non-performing loan ratio of the Company was 1.67%, representing a decrease of 0.31 percentage point as compared with the end of the previous year, while the proportion of special mention loans in total loans was 1.66%, down by 0.49 percentage point from the end of the previous year, and the proportion of overdue loans in total loans was 1.77%, down by 0.47 percentage point from the end of the previous year. The loan allowance ratio was 4.44%, up by 0.89 percentage point from the end of the previous year. The allowance coverage ratio of non-performing loans was 265.04%, representing an increase of 86.01 percentage points as compared with the end of the previous year. The credit cost ratio was 1.88%, representing a decrease of 0.39 percentage point as compared with the end of the previous year. The risk exposure was generally controllable.

In 2017, both the amount and ratio of non-performing loan formation decreased. In general, the amount of non-performing loan formation during the year was RMB36.537 billion, representing a decrease of RMB26.393 billion or 41.94% as compared with the previous year, and the non-performing loan formation ratio was 1.16%, representing a decrease of 1.08 percentage points as compared with the end of the previous year, and the cumulative non-performing loan formation ratio for each quarter in 2017 declined as compared with the corresponding period of the previous year; analysing by industry, the amount and ratio of non-performing loans formation in the manufacturing, wholesale and retail and mining industries reduced significantly as compared with the previous year; analysing by geographic area, the amount and ratio of non-performing loan formation in the Yangtze River Delta, Bohai Rim and Western China where they were previously higher reduced significantly as compared with the previous year; analysing by customer base, the amount and ratio of non-performing loan formation in small-, medium- and large-sized enterprises also declined as compared with the previous year.

During the reporting period, the Company further strengthened the disposal of non-performing loans and used a number of methods to manage risk assets. In 2017, the Company disposed of non-performing loans amounting to RMB41.358 billion, of which, RMB21.368 billion was written off in a regular way, RMB9.822 billion was cleared and settled, RMB2.856 billion was securitised as non-performing assets, RMB222 million was transferred at discount, and RMB7.090 billion was disposed of by restructuring, upward migration, repossession, remission and other means.

1 The balance of wealth management products is the sum of the principal, the changes in net value of net-worth products and the structured products of customers as at the end of the reporting period.

In 2017, the Company relied on its efficient and sophisticated operating mechanism of asset securitisation to continue to accelerate the process of securitisation of the non-performing assets. During the reporting period, the Company launched three securitisation projects, for which non-performing assets with principal value in aggregate of RMB2.856 billion were disposed of, and the nominal value of securities issued amounted to RMB650 million. The Company holds 5% of each tranche of such securities in accordance with regulatory requirements. The remaining securities were subscribed for by investors in the open market. The securitisation of the non-performing assets of the Company concluded with a number of achievements, i.e. establishment of a market-based issuing and pricing mechanism, realisation of real sale and bankruptcy ringfencing of the assets, transmission from asset holding to asset services, optimisation of the structure of the Company's assets and liabilities, improvement on asset liquidity and revenue structure.

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

6. Asset quality in key areas

In response to changes in external macroeconomic environment, the Company proactively strengthened the control of its risks associated with real estate industry, local government financing platforms, the industries from which our loans should be reduced and recovered and other key areas.

In respect of real estate credit business, the Company dynamically adjusted its credit policy according to the policies on adjustments to the real estate industry, effectively changed the business strategy of the real estate industry, and allocated and invested assets in the directions in line with future industrial trends by focusing on house leasing, real estate asset securitisation and real estate equity investment. Focusing on leasing cash flow, the Company selected quality house leasing business, and primarily supported centralised projects with characteristics of high level of economic development, prime locations in cities, well operation, steady cash flow and strong capability of value realisation. The Company formulated and implemented stringent entry standards with respect to cities, customers and projects, continued to enhance the on- and off-balance sheet quota control on the full statistical calibre and strengthened the region and customer list management, proactively adapted to the national policies on industrial adjustment and strictly implemented the requirements of national policies to strictly control and regulate over-pricing of real estate properties at early stage, cities showing high main market leverage ratio, real estate projects with high leverage and high financing cost; deepened strategic cooperation with the prestigious real estate developers, thereby further raising the proportion of its strategic real estate customers and relatively robust cities in the real estate industry and constantly optimising its assets structure. As at the end of the reporting period, the risk exposure of our businesses with domestic real estate enterprises (calculated on the broad statistical calibre)[2] amounted to RMB425.651 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standard assets), representing an increase of RMB74.410 billion as compared with the beginning of the year. Included therein was the balance of loans to domestic real estate enterprises which amounted to RMB193.516 billion, representing an increase of RMB23.293 billion as compared with the end of the previous year, which accounted for 5.85% of the total loans and advances granted by the Company, up by 0.20 percentage point as compared with the end of the previous year. Since 2017, the assets of the domestic real estate enterprises has maintained good quality, the non-performing loan ratio was 1.46%.

In respect of local government financing platform business, the Company implemented quota management on full statistical calibres. The Company further specified the requirements of total amount control and centralised regional management, adhered to the entry standard of "stable coverage of cash flow and compliant business model", and prioritised the allocation of its credit resources to local government financing platforms being operated under the market-based and commercial principles, having good cash flow and complying with the policies on government purchasing (procurement) and PPP model to optimise its loan structure. In addition, the Company continued with its research on the change of debt policy of the central and local governments, acting actively in concert with the replacement of local government debts and quota management, so as to safeguard the creditor's rights of the Company. As at the end of the reporting period, the risk exposure of our businesses with local government financing platforms (calculated on the broad statistical calibre)[3] amounted to RMB228.507 billion (including businesses such as actual and contingent credit, bond investments, proprietary investment and investment of wealth management products in non-standard assets), representing a decrease of RMB39 million as compared with the beginning of the year. Included therein was the balance of loans on balance sheet which amounted to RMB98.735 billion, representing a decrease of RMB5.948 billion as compared with the end of the previous year, which accounted for 2.99% of the total loans and advances granted by the Company, down by 0.48 percentage point as compared with the end of the previous year. There was no non-performing asset for our businesses involving local government financing platforms.

For the 20 industries[4] that we have reduced or withdrawn from such as coal, iron and steel, cement, shipbuilding, photovoltaic and coal chemicals, the Company raised its entry threshold for customers, focused on supporting leading enterprises in industries and regional quality enterprises closely related to people's livelihood, prioritised the financing needs related to energy conservation and environmental protection and technological upgrading, devoted to reducing and withdrawing from customers associated with significant risks and lower class overcapacity, especially for customers in the process of reducing production capacity, deleveraging, and those meeting the "zombie enterprise" standards. In addition, the Company implemented stringent quota management for industry, enhanced the monitoring of withdrawal of risk-bearing loans and optimised risk mitigation measures. As at the end of December 2017, the exposure of the industries that we have reduced or withdrawn from (calculated on the full statistical calibre) amounted to RMB139.505 billion, representing a decrease of RMB48.193 billion as compared with the end of the previous year. The non-performing loan ratio was 9.37%, down by 4.05 percentage points as compared with the end of the previous year. The exposure of water transport, engineering machinery and glass increased as compared with the end of the previous year, mainly due to the moderate increase in loans for quality enterprises and advanced production capacity in the above-mentioned industries, the exposure of other 17 industries decreased as compared with the end of the previous year.

7. The proprietary funds invested in non-standardised credit assets

During the reporting period, the Company further tightened risk control in the proprietary funds invested in non-standardised credit assets and emphasised compliance with the rules in respect of the fund investment, carefully evaluated the risks and made adequate provision based on the nature of the invested basic assets in strict compliance with the regulatory requirements. In accordance with the principle of substance over form, the Company also incorporated the centralised credit management of customers and implemented risk classification according to the risk profile of basic assets in accordance with the management requirement of penetration principle. As at the end of the reporting period, the balance of the Company's proprietary funds invested in non-standardised credit assets amounted to RMB554.423 billion, representing an increase of 9.15% as compared with the end of the previous year. The assets structure as at the end of the reporting period is as follows:

The balance of proprietary funds invested in non-standardised credit assets under the credit category amounted to RMB551.423 billion, representing an increase of 23.41% as compared with the end of the previous year, in which RMB206.512 billion was for corporate creditor's beneficiary rights, up by 43.40% as compared with the end of the previous year, mainly due to the increase in demand for corporate loans during the reporting period; RMB54.696 billion was for individual creditor's beneficiary rights, down by 11.63% as compared with the end of the previous year; and RMB290.215 billion was for beneficiary rights to discounted bank acceptance bills and commercial acceptance bills, up by 20.47% as compared with the end of the previous year. The non-performing ratio of the proprietary funds invested in non-standardised credit assets under the credit category was 0.57%, down by 0.27 percentage point as compared with the end of the previous year.

The balance of proprietary funds invested in non-standardised debt assets under the non-credit category amounted to RMB3.000 billion, representing a decrease of 95.09% as compared with the end of the previous year. The objects of such investments are creditor's beneficiary rights of banks and other financial institutions.

As at the end of the reporting period, the balance of provisions for full-calibre credit assets (including proprietary loans and proprietary funds invested in non-standardised credit assets under the credit category) amounted to RMB150.129 billion, including the balance of loan provisions of RMB146.669 billion and the balance of provisions for proprietary funds invested in non-standardised credit assets under the credit category of RMB3.460 billion. The full-calibre credit assets allowance ratio was 3.89%, representing an increase of 0.64 percentage point as compared with the end of the previous year, whereas the non-performing loan allowance coverage ratio of credit assets was 256.71%, representing an increase of 79.64 percentage points as compared with the end of the previous year.

In future, the Company will continue to serve the real economy and give priority to satisfying tailored financing needs of quality enterprises for the purpose of business development. The Company will also implement the national macro-control policies and conduct prudent and careful management as the preconditions for its business operations. The Company will continue to maintain a relatively consistent policy with proprietary funds in terms of credit policies, customer onboarding, industrial investment direction, due diligence, risk assessment, post-investment management and other aspects.

2 As the scope of risk exposure of our businesses (calculated on the broad statistical calibre) was adjusted, the figures as at the end of the previous year were adjusted accordingly, on the same calibre.

3 Same as above.

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

8. Capital management

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

As at the end of 2017, the Company's risk-weighted assets under the weighted approach increased by 10.83% as compared with the end of the previous year, and the percentage of risk-weighted assets to total assets was 65.81%. The risk-weighted assets (taking into consideration the minimum requirements during the grace period) under the advanced approach increased by 3.68% as compared with the end of the previous year, and the percentage of risk-weighted assets to total assets was 53.40%, lowered by 12.41 percentage points as compared to that under the weighted approach, indicating an effective saving in capital. The slight increase in the percentage of risk-weighted assets to total assets was mainly because the Company proactively implemented the regulatory requirement of deleveraging, getting off virtual and going into the real capital in 2017, leading to slower growth in inter-bank assets and faster growth in credit assets during the year. Meanwhile, the Company proactively implemented the concept of "Light-operation Bank", increased the investment in strategic customers and retail credit business at the Head Office and branches, optimised resources allocation and promoted structural optimisation and adjustments.

The Company constantly promoted the implementation of the development strategies of marketisation, branding and internationalisation for its assets securitisation business to provide extra capacity for capital saving. As at the end of the reporting period, the Company totally issued 24 phases of credit asset-backed securities, with the aggregate issuance volume of RMB138.192 billion, among which, 10 phases of credit asset-backed securities were issued during the reporting period, with the aggregate issuance volume of RMB71.492 billion, fully covering all types of assets including corporate and retail, and normal and non-performing, leading in the industry in terms of market share, and taking the dominant position in securitisation of retail assets.

According to the Company's capital planning, our goals for core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio will reach and be maintained at above 9.5%, 10.5% and 12.5% respectively at the end of 2018. The Company will stick to the principle of fund generation and accumulation mainly from internal resources and replenishing capital with external resources, and raising funds through various channels and various ways. Currently, the Company does not have any share capital financing schemes but will carefully consider the actual conditions and make proper decisions in future. In 2017, in consideration of a series of factors including the macroeconomic conditions, the Company's capital planning and the business development trend, the Company initiated the issuance of preference shares in the domestic and overseas markets. The issuance of 50,000,000 offshore preference shares was completed on 25 October 2017, the gross proceeds raised from the issuance amounted to USD1 billion. The issuance of 275 million domestic preference shares was completed on 18 December 2017, the gross proceeds raised from the issuance amounted to RMB27.5 billion. After deducting the issuance expenses, the net proceeds of the aforesaid issuances amounted to approximately RMB34.065 billion in aggregate, which were included in the Company's other tier 1 capital. The above issuances effectively enhanced the Company's capital adequacy ratio, and strengthened its risk prevention capability and overall competitiveness, laying a solid capital foundation for the sustainable and healthy business development in future.

In 2018, the Company will continue to enhance the concept of refined capital management, and promote the application of the risk adjusted return on capital (RAROC), the economic value added (EVA) and other valuation indicators. Tracing the progress of international capital regulatory reform, the Company will continue to implement the internal capital adequacy assessment procedures (ICAAP), keep a dynamic balance of supply and demand of capital, and plan the utilisation of capital tools such as ordinary shares, preference shares and tier 2 capital bonds in a comprehensive way.

3.9.2 Outlook and counter-measures for 2018

2018 is the first year for China to improve the quality and efficiency of its economic development. The banking industry has entered a stage of differentiation. In the short run, despite the fact that commercial banks have been facing challenges such as stricter regulation, tight monetary policy and weak momentum of economic recovery, we will still be presented with a number of structural opportunities if we adjust our business model. In the long run, technology will continue to bring changes to the operating environment. The technological developments including Cloud Computing, Big Data, Artificial Intelligence and Blockchain in recent years may embrace "fruitful explosions" in the near future. Whether commercial banks can ride on the tide to evolve or just repeat the setback of mobile payment in other sectors completely depends on the actions to be taken in the coming three years. This section will elaborate from the short- and long-term perspectives, respectively.

In the short run, the situation can be concluded as "strict regulation, tight monetary policy and robust economy".

Regulation will be further strengthened. Regulatory authorities will take the prevention and management of major risks as their top priority. They will focus on reducing the gearing ratio, especially those of zombie companies, as well as the leverage ratio of household sector; place strict regulation on cross-over financial products and continue to address the issue of shadow banking; clean up and regulate financial holding companies and deal with risky banking institutions in an orderly manner; further rectify various out-of-line financial behaviours and strive to fight against illegal fund-raising activities; and continue to curb the real estate bubble and proactively support the local governments to clean up implicit debts. A curtain has been rung down for the huge expansion of shadow banking. Chaotic phenomena such as idle funds and crazy leveraging have been consigned to history. Skills and resources arising in response to regulatory arbitrage and leveraged operations have become "negative assets". The banking industry has entered into a stage of differentiation.

The monetary policy will be neutral with a tightening bias. In view of the policy environment, as the macroeconomic leverage ratio remains high, "deleveraging" still has a long way to go and the money supply will be further tightened. In view of the rules of regulation and control, the monetary policy has been switching from single focus on quantity-based instruments to dual focus on both quantity-based and price-based instruments. The slow growth of M2 does not amount to the easing of monetary policy of the central bank. In view of the external environment, the market widely expects that the Federal Reserve will sustain rate hikes in 2018, which will also become a crucial factor for the rising market interest rates.

The real economy will stabilise at a low level, and is still searching for new growth drivers. Many structural opportunities are present but yet to support a "V-shape rebound" as a whole. In view of the three growth drivers of GDP growth, the contribution of consumption to economic growth has been increasing. However, consumption upgrading is a long and slow process. Fundamental changes will not happen in the short run. The growth of private investment briefly recovered once but then fell again in 2017, reflecting the lack of willingness of the companies to expand, and the strict restrictions on local debts imposed by the central government will continue to suppress the growth of investment in infrastructure. Although the global economic recovery is beneficial to the boost of domestic exports, prevailing trade protectionism, rising domestic labour costs and other factors chip away at such stimulus on exports.

The management of the Company believes that the environment is not suitable for "going all out and going fast" in 2018, as "deleveraging" requires banks to be more prudent in credit extension, while "strict regulation" requires banks to prepare for the transformation of their asset management business. Instead, by seizing the opportunity of improving asset quality, the Company should refocus on its business origin and enforce reform. The Company will take the following measures: the first is to further promote adjustments in asset structure. The Company will greatly suppress its loans extended to the customers with material risks, customers with low-end overcapacity and "zombie companies", and provide preferential supports for strategic emerging industries, modern service industry and advanced manufacturing industries. The second is to strengthen our capabilities to sell assets. The Company will consider more about the factors affecting selling out of the sheet when "importing assets" to improve matching capability and push forward syndications, asset securitisation, the circulation at China Banking Wealth Management Registration & Depository Center and other business. The third is to take multiple actions on absorbing deposits. The Company will facilitate the growth of deposits by customer management, especially with a focus on financial institutions business and institutional business, and put more efforts in the innovation of deposits products. The fourth is to achieve good results in compliant operations and risk prevention. Under the current operating environment, the Company plans to achieve a growth rate of approximately 10.30%, 11.30% and 5.20% in proprietary loans, proprietary deposits and active liabilities in 2018, respectively.

In the long run, in order to adapt to the huge changes in operating environment brought about by technologies, commercial banks have to formulate their general development plan through detaching from the pursuit of short-term benefits and fundamentally changing their business and management models. In 2018, focusing on improving customer experience and leveraging the monthly number of active users of its two major APPs, namely CMB APP and CMB Life APP, the Company will remove obstacles and concentrate its effort on the innovation and operation of financial technology so as to strive for the "double agility" of business and technology. Recently, the monthly number of active users of our two major APPs has exceeded 45 million (after de-duplication), taking the lead in the banking industry. Both our technological capacity and operation philosophy are very mature.

In order to accomplish the mission of gaining users, the Bank has to concentrate on addressing some in-depth and fundamental issues and implement seven mid- to long-term missions: the first is to deepen transformation and further promote service upgrading. The Company will review its products and services from the viewpoint of customers and make innovations in its appraisal to establish a service system that marks customer experience as a high priority. The second is to remove silos and formulate a customer-oriented business process. The Company will rationalise and optimise its digital end-to-end process based on the "customer journey map". The third is to make efforts to establish an automated and intelligent shared operating platform to concentrate the operational functions scattered in various business lines, so as to cut costs, improve efficiency and upgrade towards "pan-operation" gradually. The fourth is to construct a comprehensive risk management system to support transformation and development, which comprises streamlining systems, establishing research systems and strengthening utilisation of new instruments. The fifth is to achieve the "quality leapfrogging" of Digital Bank. The Bank will break down the segregation between segments and join forces on the monthly number of active users of CMB APP and CMB Life APP. The sixth is to focus on mitigating the issue of imbalanced and insufficient institutional development. In addition to Beijing, Shanghai and Shenzhen, the Company also has to establish more branches with robust operations in economically developed regions. The seventh is to improve work ethics and team building, and remodel our service culture.

3.10 Business operations

3.10.1 Retail finance

Business overview

In 2017, the profit of the retail finance business of the Company maintained its rapid growth, with the profit before tax amounting to RMB47.595 billion, representing an increase of 7.94% as compared with the previous year. It accounted for 56.52% of the total profit before tax of the whole business lines of the Company. The net operating income from the retail finance amounted to RMB106.227 billion, representing an increase of 8.48% as compared with previous year, and accounting for 51.28% of the net operating income of the Company, among which, the net interest income from retail finance amounted to RMB69.328 billion, representing an increase of 5.51% as compared with the previous year and accounting for 65.26% of the net operating income from retail finance, while the net non-interest income from retail finance amounted to RMB36.899 billion, representing an increase of 14.54% as compared with the previous year and accounting for 34.74% of the net operating income from retail finance, and 55.78% of the net non-interest income of the Company. In 2017, the retail finance of the Company recorded a fee income of RMB13.802 billion from bank cards, representing an increase of 28.97% as compared with the previous year; the fee and commission income from retail wealth management was RMB18.585 billion, accounting for 51.59% of the net fee and commission income from retail finance.

The Company has always prioritised the development of its retail finance business, and built up structural advantages. In 2017, the Company continually consolidated its business foundation through continuous optimisation of the management system, product system, service system, channel system and risk prevention system for its retail finance business, increased the application of Fintech, and proactively explored new development model for retail business. The Company has outstanding competitive edges in such core retail businesses as wealth management, private banking, credit cards, retail loans, consumer finance and e-banking.

Retail customers and total assets under management from retail customers

As at 31 December 2017, the Company had 106.6323 million retail customers (including the customers of its debit cards and credit cards), representing an increase of 17.10% as compared with the end of the previous year, among which, the number of Sunflower-level and above customers (those with minimum daily average total assets of RMB500,000 for each month) reached 2,126,700, representing an increase of 11.51% as compared with the end of the previous year. The balance of total assets under management (AUM) from our retail customers amounted to RMB6,164.340 billion, representing an increase of 11.46% as compared with the end of the previous year, among which, the balance of total assets under management from the Sunflower-level and above customers amounted to RMB5,061.367 billion, representing an increase of 11.46% as compared with the end of the previous year, and accounting for 82.11% of the balance of total assets under management from retail customers of the Bank. The balance of deposits from retail customers amounted to RMB1,231.278 billion, representing an increase of 3.33% as compared with the end of the previous year, of which the percentage of demand deposits accounted for 75.20%. The demand deposits accounted for 77.12% of the daily average balance, representing an increase of 3.08 percentage points as compared with the previous year. According to the data released by the PBOC, the Company ranked first among the joint stock banks in terms of the balance of retail deposits. As at the end of the reporting period, a total of 115,785,300 All-in-one Cards in aggregate have been issued by the Company for retail customers, up by 10.35% as compared with the end of the previous year.

In 2017, in a market environment where complicated and volatile situations overlap with relentless challenges, the Company adhered to the development strategy of "Light-operation Bank", "focused on advantages and extended the depth", returned to the fundamentals of business and customers, increased its investment in Fintech, and maintained its development in mobile technology, Big Data, Artificial Intelligence and other fields of infrastructure. The Company also strengthened its service management, enhanced the capability of allocation of sophisticated products and analysis of Big Data associated with retail customers, and fully boosted the development of financial service platform, business management refinement and precise marketing towards customers, so as to further consolidate its retail customer base, and achieve a steady growth of its retail customer base and assets under management (AUM).

Wealth management

In 2017, the Company recorded RMB9,178.368 billion in sales of personal wealth management products, representing an increase of 19.91% as compared with the previous year; RMB705.510 billion in the agency distribution of open-ended funds, representing an increase of 42.47% as compared with the previous year, of which the sales of monetary fund increased significantly; RMB224.844 billion in agency distribution of trust schemes, representing an increase of 70.08% as compared with the previous year; and RMB85.071 billion in premiums from agency distribution of insurance policies, representing a decrease of 44.22% as compared with the previous year. In 2017, the Company recorded a fee and commission income from retail wealth management business of RMB18.585 billion, representing an increase of 0.19% as compared with the previous year, among which, income from agency distribution of insurance policies amounted to RMB5.079 billion, income from entrusted wealth management amounted to RMB5.056 billion, income from agency distribution of funds amounted to RMB5.044 billion and income from agency distribution of trust schemes amounted to RMB3.257 billion. For the reasons for changes in fee and commission income from wealth management, please refer to the analysis of net non-interest income under Section 3.9.1 of this report.

During the reporting period, adhering to its "customer-centric" concept, the wealth management business of our Company enjoyed strong support from our professional market research team, which conducted independent research on the macro-economy as well as the development trend of the financial market, regularly provided the opinions on the market, the medium- to long-term investment strategies and the allocation strategies for large asset categories, strengthened the comprehensive service capability of its teams and continuously enhanced the capability of value creation for customers. The "Five-star Choice" fund of the Company took the lead to build a perfect after-sale service system for customers, and with its advantage of "less volatility and steady growth" in the performance since its launch, the "Machine Gene Investment (摩羯智投)" has become the largest domestic smart investment advisory product. In future, by utilising Artificial Intelligence such as OCR (Optical Character Recognition), NLP (Natural Language Processing), KG (Knowledge Graph) and other Fintech technologies, the Company will upgrade the smart professional wealth management service system, make innovative breakthroughs in terms of funds and insurance, and vigorously enhance customer service experience and service efficiency, so as to further strengthen the core competitiveness of its wealth management business.

Private banking

As at 31 December 2017, the Company had 67,417 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 13.19% as compared with the end of the previous year; total assets under management from private banking customers amounted to RMB1,905.267 billion, representing an increase of 14.81% as compared with the end of the previous year; total assets per account amounted to RMB28.2609 million, representing an increase of 1.43% as compared with the end of the previous year. As at the end of the reporting period, the Company has established a high-end customer service network consisting of 61 private banking centers and 67 wealth management centers in 58 domestic cities and 6 overseas cities.

Our private banking business is conducted under the operating philosophy of "It's our job to build your everlasting family fortune", which provides high-net-worth clients and their family businesses with all-round professional and private services covering investment, taxation, legal affairs, M&A, financing and clearing. In 2017, the Company started to build a five-dimensional customer acquisition system, so as to continually enrich its source of customers; further enriched its product portfolio, made innovations in product management processes and models; the establishment of overseas business system has achieved initial success, and an integrated domestic and overseas private banking service platform was formed. The Company continuously enriched the contents of private banking, coordinated the assets and liabilities of the families including financial assets, corporate equities, fixed assets and loan liabilities using the "Three Circles Model", identified the best plans for asset allocation, and established a highly efficient financial planning system. The Company also redefined family wealth, and successfully completed the first family charter trust and charity trust business of the Bank, which achieved a substantive breakthrough in the spiritual heritage of family wealth.

Credit cards

As at the end of the reporting period, the Company had issued an aggregate of 100.2272 million credit cards, with 62.4568 million active cards, representing an increase of 37.27% as compared with the end of the previous year, and there were 46.9460 million active credit-card users, representing an increase of 25.86% as compared with the end of the previous year. The Company continued to improve the efficiency of customer acquisition and management. The credit card transaction of the Company in 2017 amounted to RMB2,969.992 billion, representing an increase of 30.56% as compared with the previous year, and the average transaction of each active card per month amounted to RMB4,630.51. The balance of credit card loans was RMB491.238 billion, representing an increase of 20.10% as compared with the end of the previous year. The percentage of the revolving balances of credit cards was 21.86%. In 2017, interest income from credit cards amounted to RMB39.538 billion, representing an increase of 22.44% as compared with the previous year. Benefiting from the increase of credit card fees resulting from increased transaction volume, non-interest income from credit cards amounted to RMB14.913 billion, representing an increase of 31.75% as compared with the previous year. As at the end of the reporting period, the non-performing loan ratio of credit cards business was 1.11%, representing a decrease of 0.29 percentage point as compared with the end of the previous year. The business risk exposure was controllable in general.

During the reporting period, by effectively promoting the application of Fintech, the Company built a smart customer acquisition system covering all processes, and fully enhanced the efficiency of customer acquisition. By focusing on mobile Fintech innovations, the Company took "building the best consumer finance APP" as its core objective and fully enhanced the operational capability of CMB Life APP. For details, please refer to the section headed "Distribution Channels". By utilising customer persona profile, intelligent speech interaction, biometrics verification, human-computer fusion and other technologies, the Company established the three-segment customer system of "fans – subscribers – cardholders", continued to explore the service values and deepened the transformation of service models. By launching the newly upgraded intelligent credit limit service system "Quan Jing Zhi E (全景智額)", the Company built up a one-stop independent credit processing platform for its credit products and led the new trend of digital credit services. The Company vigorously developed innovative consumption finance products to enhance its competitiveness under the new market environment, and through the development and launch of "E-Smart-Loan" (e智貸), the first smart recommendation engine for consumer credit products in the industry, and through over 10 million times of Cloud Computing per day, the Company was able to recommend the "tailored" credit products for its customers at real time basis. The Company proactively cooperated with Internet enterprises in respect of card products, proactively explored innovative IP business model, and launched a number of popular co-branded credit cards such as the Arena of Valor Joint-brand Card (王者榮耀聯名卡). In celebration of the 15th anniversary of the issuance of credit cards, the Company carried out vigorous brand promotion, among which, the microfilm named "Tomato Scrambled Eggs" ("番茄炒蛋"微電影) for credit cards specially designed for Chinese students studying abroad successfully became a phenomenon-level brand marketing case and its page views reached 100 million times. During the reporting period, the total credit card transaction volume of the Company maintained its leading position in the industry, while the overseas market transaction volume of the Company also maintained its leading position for ten consecutive years. Credit card business achieved balanced development in quality, efficiency, scale and service. Confronted with the competition and challenges from its peers and Internet enterprises, by leveraging on strengths such as more sophisticated risk control system and larger financial database, the credit card business of the Company provided smart consumer credit solutions for its customers. And adhering to the win-win cooperation with third-party payment enterprises, the Company created a more intelligent and user-friendly payment environment for its customers together with these enterprises, and continuously forged its competitive edge in brand, operation and technology.

During the reporting period, leveraging on its excellent services and innovations in Fintech, the Company received various awards for its credit card business, including the "Best Experience of Mobile Social Media", a technological innovation award awarded by *The Asia Banker* and the "Top Brand in China Brand Index – Credit Card Category" awarded by Chnbrand, a Chinese brand rating and brand advisory institution. The Company also received the "Most Favoured Credit Card by Multimillionaires" awarded by Hurun Rich List for 13 consecutively times, and received the "Best Customer Service Center in China" awarded by CCCS for the 13th time.

Retail loans

In 2017, the Company proactively grasped market opportunities, and strived to promote the balanced development in quality, efficiency and scale of retail loan business on the premise of effective control of risks associated with retail loans. As at 31 December 2017, the total retail loans of the Company amounted to RMB1,764.296 billion, representing an increase of 16.02% as compared with the end of the previous year and accounting for 53.36% of the total loans and advances to customers, up by 2.91 percentage point as compared with the end of the previous year. Total amount of the Company's retail loans (excluding credit card loans) reached RMB1,273.117 billion, representing an increase of 14.51% as compared with the end of the previous year, accounting for 38.51% of total loans and advances to customers of the Company, representing an increase of 1.63 percentage points as compared with the end of the previous year.

As to business development, in 2017, the Company developed its residential housing loan business in a steady manner in accordance with the requirements of the State policies and regulations and in support of the residents' reasonable needs for their own homes, and accelerated the development of micro finance loans at the same time, in order to support the real economy, in particular the development of small- and micro-sized enterprises, so as to promote the further optimisation of asset structure of retail loans and to realise the healthy development of retail loans business. As at the end of the reporting period, the Company recorded a balance of residential housing loans of RMB825.783 billion, representing an increase of 14.64% as compared with the end of the previous year with its percentage of the increment in retail loans (excluding credit cards) down by 41.05 percentage points as compared with the end of the previous year. The balance of micro-finance loans amounted to RMB310.969 billion (calculated on the Bank's statistical calibre), representing an increase of 10.41% as compared with the end of the previous year with its percentage of the increment in retail loans (excluding credit cards) up by 30.86 percentage points as compared with the end of the previous year, which has returned to the path of healthy growth. The floating percentage of the weighted average interest rate of micro-finance loans newly granted (weighted at actual amounts, same as below) during the reporting period was 40.90%. The balance of consumption loans amounted to RMB91.370 billion, up by 42.57% as compared with the end of the previous year with its percentage of the increment in retail loans (excluding credit cards) up by 10.93 percentage points as compared with the end of the previous year. The floating percentage of the weighted average interest rate of consumption loans newly granted during the reporting period was 55.71%. As at the end of the reporting period, the Company had 2,733,700 retail customers, representing an increase of 47.38% as compared with the end of the previous year.

As to the quality of assets, benefiting from the stable and positive external economic environment, the Company continued to optimise its policies for retail loans and enhance its risk management capabilities. As a result, the quality of retail loan assets continued to improve. As at the end of 2017, the balance of the special mention retail loans of the Company amounted to RMB22.342 billion, representing an increase of 8.56% as compared with the end of the previous year, and its proportion of retail loans recorded a decrease of 0.08 percentage point as compared with the end of the previous year. Balance of non-performing retail loans amounted to RMB15.865 billion with a non-performing loan ratio of 0.90%, down by 0.11 percentage point as compared with the end of the previous year, among which, the non-performing ratio of micro-finance loans was 1.78%, up by 0.14 percentage point as compared with the end of the previous year mainly due to a slowdown in the disposal of the non-performing loans; the non-performing ratio of consumption loans was 1.16%, down by 0.45 percentage point as compared with the end of the previous year. Excluding credit cards, the mortgage and pledged loans accounted for 79.42% of the new non-performing retail loans of the Company in 2017, with a mortgage and pledge rate of 51.25%. Given that a vast majority of such new non-performing retail loans were fully secured by collaterals, the final loss was not substantial.

As to risk management, the Company is committed to establishing a full-chain risk management system covering all processes i.e. pre-lending, lending and post-lending. During the reporting period, the Company vigorously developed Fintech technologies in a continuous manner, gradually expanded the scope of information collection, further enlarged the strategy system to cover all processes, continuously optimised various risk models, and iterated various systems in an orderly manner. The Company proactively strengthened team management, enhanced the professional level of its teams and the capability of quantitative analysis, and applied technological innovation in each aspect of risk management, so as to establish a standardised, systematic, data-based and modelised comprehensive risk management system.

In response to the risk of "joint debts", while confronting the consumer credit market with potential but burdened with too many participating entities and significant joint debts, the Company continued to enhance its capabilities to prevent multiple credit granting and credit fraud, and pictured, verified and restored the real balance sheet status of the customers in a multi-dimensional manner, so as to return to the identification of the real solvency of the customers. In respect of customer group selection, the Company focused on the customer groups with "data", who had clear and reliable information such as assets and payroll in the Company, and had better credit record and stable repayment capability based on their historical data. In respect of data, the Company integrated its internal and external data sources and formed a unified view of risks associated with its customers. In respect of application of strategies, the Company made good use of Fintech technologies, reproduced customers' incomes, and improved verification measures in order to prevent significant mismatch between the incomes and liabilities of customers.

As to financial innovation, through continuous efforts, the results of financial innovation and transformation of the Company were widely recognised both at home and abroad. The retail housing loan "Cloud Mortgage" received the "2017 Best Mortgage and Housing Loan Product in Pan Asia Pacific Region" awarded by *The Asian Banker*, the "Centralised Approval Plant for Retail Loans" of the retail loan business of the Company received the "Top Ten Innovation Awards for Financial Products" jointly awarded by the *Chinese Banker* Magazine, the Financial Product Center of the Institute of Finance and Banking of Chinese Academy of Social Sciences and Internet Economic Research Institute of Central University of Finance and Economics, and demonstrated the leading advantage of the Company in retail loan business once again.

3.10.2 Wholesale finance

Business overview

During the reporting period, the Company achieved profit before tax from wholesale finance of RMB36.618 billion, accounting for 43.48% of profit before tax for the business lines of the Company. The net operating income from wholesale finance of the Company was RMB101.911 billion, representing an increase of 2.65% as compared with the previous year, and accounting for 49.19% of the net operating income of the Company, including net interest income from wholesale finance of RMB72.727 billion, representing an increase of 10.34% as compared with the previous year, and accounting for 71.36% of the net operating income of wholesale finance; net non-interest income of wholesale finance amounted to RMB29.184 billion, representing a decrease of 12.54% as compared with the previous year and accounting for 28.64% of the net operating income of wholesale finance, and 44.12% of net non-interest income of the Company.

Wholesale customers

Though its efforts in recent years, the Company has fully implemented the centralised operation of strategic customers, clarified its hierarchical operation plan for institutional customers, interbank customers and small enterprise customers, and preliminarily established the corporate customer service system featuring hierarchical management, professional level and focused operation. The establishment of the customer service system has laid a solid foundation for the development of the Company's various businesses in 2017 and its long-term development.

With regards to its basic customer base, the customer base of the Company continued to expand rapidly. As at the end of the reporting period, the total number of corporate depositors was 1,573,300, up by 21.48% as compared with the end of the previous year; the number of newly acquired corporate depositors in the year was 364,700, contributing daily average deposits of RMB104.593 billion. Both the number of newly opened accounts and the deposit contribution recorded a new high. **With regards to its strategic customers,** during the reporting period, the Company continued to put into practice the business thought on the integration of investment banking and commercial banking in respect of its strategic customers under the Head Office, significantly improving the professional capability and responsive speed of serving the strategic customers under the Head Office, and provided its customers with the cross-line and cross-region comprehensive solutions through the differentiated, personalised and innovative products and services. As at the end of the reporting period, the number of the strategic customers under the Head Office was 166, increasing by 31 or 22.96% as compared with the end of the previous year, and the balance of general loans amounted to RMB275.627 billion, increasing by 14.08% as compared with the end of the previous year. For the strategic customers at the branch level, the Company has established the branch-level strategic customer management system, and put in place the operation mechanism, team management, assessment and motivation, process and resource matching. The Company has completed the centralised review of the operation plan of 44 branches of the whole Bank and conducted an examination on the strategic customers at the branch level. The number of strategic customers at the branch level reached 2,897, representing an increase of 21.64% as compared with the end of the previous year. **With regards to its small enterprise customer base,** the Company offered services to the small enterprise customer base holding loans from the Company through the centralised operation of customers of standardised products, the professional operation of customers of non-standardised products and the featured operation of key customers under "Qian Ying Zhan Yi (千鷹展翼)". As at the end of the reporting period, the number of small enterprise customers reached 1,454,700, representing an increase of 23.08% as compared with that at the beginning of the year. **With regards to its institutional customer base,** the Company carried out the thorough operation of the customer bases of fiscal, utility, social organisation and tobacco categories through the "Head Office-to-Head office" direct operation and lead operation. The number of institutional customers increased by 8.96% to 24,400 as compared with the end of the previous year. **With regards to its interbank customer base,** the Company has established the institutional customer service system comprising mainly of centralised operation and intensive operation through reverting to its business origin and regulating business development, and promoted the development of its basic businesses and online businesses such as liabilities, settlement, clearing and custody. As at the end of the reporting period, the number of the interbank cross-border RMB accounts opened by banks and other financial institutions with the Company reached 228, ranking first among national small- and medium-sized banks. The number of customers linked to the RMB Cross-border Interbank Payment System (CIPS) as an indirect participant through the Bank reached 124, ranking first among national small- and medium-sized banks and second in the industry. **With regards to its offshore customer base,** the Company conducted due diligence including the re-identification of offshore customers in accordance with the regulatory requirements and restricted the use of accounts for unidentifiable or suspectable customers. As at the end of the reporting period, the number of offshore customers reached 30,274, representing a decrease of 13.39% as compared with the end of the previous year. Meanwhile, the Company further optimised the services for its core customers. As at the end of the reporting period, the number of high-net-worth customers reached 2,574, representing an increase of 46.25% as compared with the end of the previous year.

Corporate loans

As at the end of the reporting period, total corporate loans of the Company amounted to RMB1,428.350 billion, representing an increase of 6.41% as compared with the end of the previous year and accounting for 43.20% of total loans and advances to customers. Among them, the balance of the medium- to long-term loans to domestic enterprises amounted to RMB583.854 billion, accounting for 44.28% of the total loans to domestic enterprises, and representing an increase of 1.60 percentage points as compared with the end of the previous year. The non-performing loan ratio of our corporate loans was 2.76%, a decrease of 0.54 percentage point as compared with the end of the previous year. In 2017, the floating range of weighted average interest rates of newly granted corporate loans in RMB was 3.28%. As at the end of the reporting period, the exposed weighted average default rate of the domestic non-defaulting corporate customers was 1.11%, a decrease of 0.60 percentage point from the end of the previous year.

Since the underlying data is subject to adjustment or elimination as a result of change in classification of certain enterprises after they have grown larger in scale at the beginning of the year, the calibre of our large-, medium- and small-sized enterprises business at the beginning of the year was adjusted as compared to the end of the previous year. As at the end of the reporting period, the balance of the Company's loans granted to domestic large-sized enterprises amounted to RMB1,005.862 billion, representing an increase of 8.54% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 76.28% of our total loans granted to domestic enterprises, up by 1.74 percentage points as compared with the beginning of the year with a non-performing loan ratio of 2.36%, down by 0.72 percentage point as compared with the beginning of the year; the balance of the Company's loans granted to domestic medium-sized enterprises amounted to RMB155.688 billion, representing a decrease of 11.75% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 11.81% of our total loans granted to domestic enterprises, down by 2.38 percentage points as compared with the beginning of the year with a non-performing loan ratio of 7.07%, up by 1.09 percentage points as compared with the beginning of the year, mainly due to a decrease in the business scale; and the balance of the Company's loans granted to domestic small-sized enterprises amounted to RMB156.974 billion, representing an increase of 12.08% (calculated on the Bank's calibre) as compared with the beginning of the year, accounting for 11.91% of our total loans granted to domestic enterprises, up by 0.64 percentage point as compared with the beginning of the year with a non-performing loan ratio of 2.89%, down by 0.91 percentage point as compared with the beginning of the year. The floating range of the weighted average interest rate of the Company's loans granted to small-sized enterprises was 14.52% for the whole year.

In 2017, the Company further optimised the industry structure of corporate loans, giving priority to industries undergoing structural upgrading, traditionally competitive industries, strategic emerging industries, modern service industries and green industries, and flexibly adjusted loans to real estate, local government financing vehicles and other industries in response to the changes in external operating environment. As at 31 December 2017, the balance of credit loans to strategic emerging industries was RMB78.321 billion, representing an increase of RMB19.638 billion as compared with the end of the previous year, and accounting for 5.48% of the total corporate loans of the Company; and the balance of green credit loans was RMB157.103 billion, representing an increase of RMB13.439 billion as compared with the end of the previous year and accounting for 11.00% of the total corporate loans of the Company. For further details of loans extended to the sectors which are subject to the strict regulation of the State, such as the real estate industry and the local governments' financing vehicles, please refer to Section 3.9.1 of this report.

The Company made effort to foster the sustainable small enterprise business development model highlighted with its own characteristics by focusing on its customer bases (Qian Ying Zhan Yi (千鷹展翼), supply chain and traditional enterprises with stable businesses) and its product lines (Gao Xin Dai (高新貸), supply chain loans and collateralised loans) and enhancing its professional operation team by setting up the small enterprise loan approval centre under the Head Office. The Company also took various measures to establish the full-process small enterprise risk control model, including the thorough inspection on the implementation of all standard procedures before loan extension, the cross-verification of external data, professional approval during loan extension, centralised loan extension and the centralised and digitalised management after loan extension.

"Qian Ying Zhan Yi (千鷹展翼)" is a strategic brand of the Company to serve the emerging small- and medium-sized innovative technology enterprises. The Company continued to explore for target customers through a carefully-compiled list. During the reporting period, the Company continued to step up its effort to expand the customer base under "Qian Ying Zhan Yi (千鷹展翼)", and to innovate finance products specific for technology enterprises by launching "Gao Xin Dai (高新貸)" and other products. Meanwhile, the Company proactively initiated the innovation of investment and loan linking business, and worked closely with external investment institutions, so as to provide diversified investment and loan linking services to enterprises registered under "Qian Ying Zhan Yi (千鷹展翼)". As at 31 December 2017, the Company had a total of 22,011 registered customers under "Qian Ying Zhan Yi (千鷹展翼)", representing an increase of 3,762 registered customers on the basis of customer base adjustment at the beginning of the year. During the reporting period, a total of 118 companies in the "Qian Ying Zhan Yi (千鷹展翼)" customer base had successfully launched their IPO in Mainland China and each of them opened a special account with the Company for their IPO proceeds. Total amounts of proceeds under our custody reached RMB14.642 billion. The total amount of the credit lines granted to such customers as at the end of the reporting period amounted to RMB75.110 billion with the balance of loans granted to such customers amounting to RMB30.340 billion. The non-performing ratio was 0.15%.

The main purpose of the Company's syndicated loan business is to enhance inter-bank cooperation and information sharing and spread the risks associated with large-amount loans. As at 31 December 2017, the balance of syndicated loans amounted to RMB144.700 billion, up by 4.76% as compared with the end of the previous year.

Discounted bills

In 2017, affected by the external value-added tax policy, the business volume of the bills market recorded a year-on-year decrease. The business volume of the directly discounted bills amounted to RMB783.124 billion during the reporting period, maintaining its leading position in the industry. As at 31 December 2017, the balance of discounted bills amounted to RMB113.678 billion, representing a decrease of 24.95% as compared with the end of the previous year.

Corporate customer deposits

During the reporting period, the Company focused on the hierarchical and intensive operation of customer bases for its corporate banking, refocused on its business origin, and centred on the two competitive product lines of transaction banking and investment banking to serve its customers and enhanced the overall contribution and stickiness of its customers, thereby realising a steady growth in corporate deposits. As at 31 December 2017, the balance of corporate customer deposits amounted to RMB2,658.746 billion, representing an increase of 8.48% as compared with the end of the previous year; the daily average balance amounted to RMB2,599.915 billion, representing an increase of 11.28% as compared with the previous year; among which, the demand deposits accounted for 56.23% of total deposits from our corporate customers. In 2017, the average cost ratio of deposits from corporate customers was 1.51%, up by 0.03 percentage point as compared with the previous year. The cost of deposits from corporate customers was under effective control despite the rapid rise of market prices.

Transaction banking business and offshore banking business

With respect to its cash management business, the Company proactively responded to challenges arising from interest rate liberalisation by providing various types of customers with all-inclusive, multi-model and integrated cash management services, thereby making substantial contribution to the acquisition and retention of base customers, acquisition of low cost corporate settlement related deposits, and cross-sales of other corporate and retail products. As of 31 December 2017, the Company had a total of 1,396,000 customers using its cash management service, representing an increase of 25.74% as compared with the end of the previous year. Thanks to its continuous efforts to consolidate the "C+ Cash Settlement Solution" brand, the Company recorded 261,100 newly opened accounts and 810,800 newly issued "All-in-one Cards for Company (公司一卡通)". The annual amount of transactions through mobile checks amounted to RMB1.05 trillion. The basic cash management business experienced a healthy growth. The Company continued to advance the innovation and promotion of "C+ Account – portfolio deposits", Cross-border Cash Pool, Virtual Cash Pool, Multi-level Cash Pool and other products, launched the Mobile Customer Application for Cross-bank Solution for Cash Management ("CBS") and continued to repeatedly optimise the cross-bank cash management products.

With respect to its cash management service, the Company continued to upgrade its cash management cloud service to launch the CBS6.0 Cash Management Cloud, repeatedly optimised the Solution for CBS Mobile Cash Management, and effectively strengthened the marketing of various key projects serving large-sized conglomerates, administrative institutions and multinational corporations, thus realising a rapid growth in the CBS business. The number of our group customers using such service and companies under management reached 1,514 and 40,800, respectively, with an annual transaction amount of RMB7.92 trillion.

With respect to its supply chain finance, the Company relied on Fintech to put into practice the integration of investment banking and commercial banking and offered its customers the industrial supply chain comprehensive service solution integrated with the business ideology of "financing + wisdom pooling + Fintech application". The "wisdom pooling" is a capability to offer financial services to real industrial chains, including a package of services such as design of commercial models, arrangement for transaction structure, operation and management of assets and integration of external resources. The "Fintech application" means that the Company exerts its Fintech application advantage to provide its customers with the Fintech-based financial IT infrastructure. With the tightened classification standards for core enterprises and upstream and downstream customers, as at the end of the period, the number of the Company's core customers with existing financial assets in supply chains and the upstream and downstream customers with existing assets were 949 and 9,450, representing an increase of 142.71% and 70.12% as compared with the beginning of the year, respectively. The balance of supply chain finance amounted to RMB185.301 billion, representing an increase of 91.31% as compared with the end of the previous year.

With respect to its trade finance, in order to better serve real economy, the Company proactively adjusted the investment proportion of international and domestic trade finance assets, and furthered the assortment and extended utilisation of the integrated products for domestic and foreign trade, making an investment of USD7.415 billion in the onshore financing for international trade. The domestic guarantees amounting to RMB62.108 billion were issued, representing a year-on-year increase of 71.70%. The Company proactively explored the opportunities of cooperation with strategic customers in the domestic factoring business, and posted RMB174.584 billion in its business volume for the whole year, representing a year-on-year increase of 251.05%. The Company focused on developing the innovative products with strong demand such as "Engineering Guarantee (工程保)", "Export Pool Finance (出口池融資)", "Making Payments on Behalf of Customers for Imports & Exports (進出口代付)" and "Negotiation of Domestic Letters of Credit Without Recourse" by deepening the Fintech application and captialising on the innovation of technologies and concepts. The Company attached great importance to both risk control and asset quality, and realised a decrease in both the non-performing balance and increment of trade finance.

With respect to its cross-border finance, the Company made full use of the comprehensive service system covering "local and foreign currencies, domestic and international trade, offshore and onshore banking, investment banking and commercial banking (本外幣、 境內外、 離在岸、 投商行)", proactively promoted the cooperation in the joint operation of domestic branches and overseas platforms, and offered its customers the comprehensive service solutions. As at the end of the reporting period, the number of the Company's cross-border finance customers reached 67,277, representing an increase of 10.08% as compared with the end of the previous year. During the reporting period, the onshore international settlements of the Company amounted to USD203.951 billion. Our cross-border payment business snatched a market share of 2.83%, ranking second among the national small- and medium-sized banks. The foreign exchange settlements amounted to USD130.275 billion, with a market share of 3.83%, ranking second among the national small- and medium-sized banks. The cross-border finance amounted to RMB23.995 billion, representing a year-on-year increase of 263.51%.

With respect to its offshore businesses, the Company fully enhanced the identification of its customers, revisited its customers regularly, and deepened cooperation with its key customers by offering the comprehensive service solutions such as settlements, wealth management and financing, thereby realising a steady business growth. As at 31 December 2017, the balance of deposits from offshore customers amounted to USD20.045 billion, representing an increase of 24.41% as compared with the end of the previous year. The balance of loans granted to offshore customers amounted to USD14.206 billion, representing an increase of 25.64% as compared with the end of the previous year. The asset quality remained satisfactory with a non-performing loan ratio of 0.16%, without new non-performing and overdue loans formation in the year. The offshore international settlements amounted to USD309.016 billion, representing a year-on-year increase of 7.49%, without occurrence of any operational risk losses. Net non-interest income amounted to USD108 million.

Investment banking business

In 2017, the Company enhanced its core competitiveness in asset organization and explored new organizational models while optimising its business system construction by carefully analysing the needs of its strategic customers at both the headquarters and the branch level. The Company also earnestly pursued the development strategy of "Light-operation Bank" against all odds and managed to achieve an increase in the total non-interest income of investment bank business by 19.22% year-on-year. Initial results are seen with the integration of investment banking and commercial banking with further elevation of its market brand reputation.

With respect to our bonds underwriting business, under the environment of rising market interest rates, the Company strengthened its market analysis capability and maintained good investor relations, and sought to implement major national strategies through the launch of a series of products such as a successful lead-underwriting of Bonds for coordinated development of the Beijing-Tianjin-Hebei region, first non-financial enterprises Panda Bonds for One Belt One Road, first Green Panda Bonds, first Green ABN, first Bonds Connect for local enterprise and Bonds for Poverty Alleviation. During the year, the total value of Lead bonds Underwriting amounted to RMB283.727 billion, ranking second in non-policy financial bonds market, and fifth in the medium term notes market (as per ranking by WIND public data)

With respect to our M&A financing business, the Company maintained its focus on the listed companies, and enhanced its three major capabilities of project design, fund organization and deal matching in a turbulent external M&A market environment. While strengthening and extending our traditional advantages in privatisation sector, the Company has paid more attention to uplifting its organisational capability in M&A syndicates with successful completion of ten major M&A financing arrangements in the amount of tens of billions of RMB yuan while undertaking the major privatisation deals in the market. All in all, a total amount of RMB105.822 billion had been achieved in M&A during the year, with a year-on-year growth of 30.65%, and ranked 3rd in Asia lead M&A syndicated financing market (Source: Thomson Reuters data).

With respect to our Structural Financing business, the Company closely followed the changes in market trends and exploited opportunities for deal matching and asset securitisation in facing the complicated environment of new regulatory policies and shortfall in available funds. Efforts were made to optimise our business structure while developing our two-way deal matching capabilities between assets and funding, so to upgrade our comprehensive capabilities in customer service. During the year, a total amount of RMB69.09 billion was initiated in structural financing, with a year-on-year growth of 111.32%, among which the total amount in market deal matching topped RMB43.4 billion, representing a year-on-year growth of 228.79%.

With respect to our Capital Market business, the Company emphasised support to the real economy and technological innovation in its business development, and fully engaged in State-owned Enterprise Mixed Ownership Reform in pilot sectors and took an active part in investment and financing business for quality enterprises in the field of technological innovation and consumption upgrade. During the year, equity investment and financing amounted to RMB14.747 billion, representing a year-on-year growth of 15.17%.

Financial institution business

Under the stringent regulatory environment, the Company continued to improve its services for financial institution customers, and adjusted its business strategies in the following areas to adapt to the market changes: **Firstly, with respect to asset and liability,** the Company compressed the business on interbank assets and optimised its interbank liability structure and supported its liquidity management of the whole Bank in accordance with regulatory requirement. As of the end of the reporting period, the balance of interbank deposits of the Company amounted to RMB421.251 billion. Among them, the total amount of interbank demand deposits in the areas of fund clearing, settlement and depository service reported a balance of RMB288.635 billion, accounting for 68.52%. The Bank maintained a leading position in terms of scale and percentage of demand deposits among the small- to medium-sized banks in China. **Secondly, with respect to interbank clearing,** the Company is actively exploring new models and optimising all services through leveraging Fintech. In December 2017, the Company successfully settled the world's first Blockchain-based cross-border interbank RMB clearing deal, through leveraging the industry's first open interbank clearing platform based on the Blockchain technology. At the end of the reporting period, the bank maintained a leading edge among all small- and medium-sized banks in China in the cross-border RMB interbank demand deposits accounts opened by the financial institutions both domestically and abroad. The Bank was also in the leading position in terms of number of customers taking part indirectly in CIPS among all small- and medium-sized banks in China and ranked second in the industry. **Thirdly, with respect to interbank fund management,** the Company maintained an interbank fund management balance in the amount of RMB129.632 billion, a reduction by nearly 70% as compared with the end of last year. The scale of interbank fund management continued to decrease and would continue with steady further reduction. **Fourthly, with respect to depository service,** the Company's security future margin was in stable operation in the reporting period, with new third-party depository services extended to 100 securities companies and 9,020,200 new customers secured, achieving a growth of 16.22% as compared with the end of the previous year. In addition, the Company entered into cooperation with 85 securities companies on margin trading and short selling business, securing 354,100 new customers, achieving a growth of 8.72% as compared with the end of the previous year. Also the Company entered into cooperation with 46 securities companies on stock options business, securing 13,800 customers at the end of the reporting period, representing a growth of 31.43% as compared with the end of the previous year. The Company also entered into cooperation with 105 securities companies on Bank-futures transfer, securing 94,900 customers, representing a growth of 49.21% as compared with the end of the previous year. **Fifthly, with respect to discounted bill transfer business,** the discounted bills transferred to other banks or financial institutions amounted to RMB3,121.015 billion, with a year-on-year drop of 88.54%, due to a series of factors including the fall in bills turnover in external market, internal business regulations, and a change in the direction of capital flow. However, the Company still maintained a leading position in market share. Business in central bank bill rediscounting amounted to RMB89.648 billion, with a year-on-year growth of 30.38% and maintained its leading position in the market. **Sixthly, with respect to exchanges,** the Company was qualified as a depository bank and clearing and settlement bank with China Financial Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, Shanghai Futures Exchange, Shanghai Gold Exchange, Shanghai International Gold Exchange, Shanghai Clearing House, Shanghai Insurance Exchange, Shanghai International Energy Exchange, China Trust Registry Corporation. In addition, the Company was also qualified as the domestic/overseas depository bank with Shanghai International Energy Exchange, and as a settlement bank with Shanghai Insurance Exchange and China Trust Registry Corporation during the reporting period. **Seventhly, with respect to the businesses on our "Zhao Ying Tong (招贏通)" Internet transaction platform for industry peers**, as at the end of the reporting period, the number of financial institutions signed for our "Zhao Ying Tong (招贏通)" transaction platform for industry peers of the Company reached 1,338, the number of accounts opened by public fund institutions reached 288, the number of customers of online interbank deposits exceeded 100, the online business volume amounted to RMB1.36 trillion, and the online trading replacement ratio of the platform exceeded 80%.

Wealth management business

The Company's personal wealth management business maintained a healthy growth, and rolled out a total of 4,660 new wealth management products, with a total sales turnover of RMB15.87 trillion, representing a year-on-year decrease of 1.61%. As of the end of the reporting period, the total value of the Company's wealth management products[5] amounted to RMB2.19 trillion, with a year-on-year growth of 1.42%. According to the information of the CBRC, the Company's wealth management products and off-balance sheet wealth management products ranked second among the commercial banks in terms of total fund values.

During the reporting period, the wealth management business of the Company also scored a number of achievements in terms of asset allocations, risk management, entrusted investment management and products transformation.

Firstly, the portfolio of quality assets allocation improved steadily. Aiming to raise the return-on-risk ratio of asset allocation, the Company strengthened its organisation of high-quality asset and investment capabilities of standardised financial assets. With respect to bonds asset, the Company coped with fluctuation in the bonds market more effectively by enhancing its investment strategies with research on the market and a timely adjustment to its investment strategies and structure. As of the end of the reporting period, the wealth management funds invested in the bond market totaled RMB1,128.269 billion, representing a year-on-year growth of 8.99%. With respect to the credit assets, the Company gradually rolled out its asset securitisation business, stock beneficiary scheme and credit asset circulation business at the Center for Credit Asset Registration and Circulation for the Banking Financial Institution. With respect to the non-standardised credit assets, the Company made investments within the quota limit in strict compliance with the regulatory guidance. As of the end of the reporting period, the total balance of wealth management funds invested with the non-standardised credit assets amounted to RMB218.638 billion. During the reporting period, the quality of the non-standardised credit assets remained stable due to the implementation of stringent asset entry criteria and risk management measures. With respect to the equity assets, "Tou Rong Tong", which focused on the needs of high-quality listed companies and their related parties for financing, margin financing and investments, reported a stable growth. Our investment business in the secondary stock trading market, by working with the top investment firms in the market, also reported a steady growth in business volume and return, and improvement in investment management.

Secondly, our comprehensive risk management capabilities improved continuously. During the reporting period, the Company strove to improve its risk management expertise on asset management, and kept on consolidating its post-investment management of credit risks, while closely monitoring the market risks. On the other hand, efforts were also made to strengthen the Company's liquidity management capacity on asset management business, leveraging centralised operation and system replacement to reduce operation risks. The Company also actively carried on the special inspection and supervision on the "Three Violations, Three Arbitrages and Four Improper Acts" enforced by the CBRC through well-targeted control of the legal compliance risks and prevention of business legal compliance risk while uplifting its risk management capabilities in every aspect and advancing its risk management efforts with radical measures instead of tentative measures.

Thirdly, efforts are continuously made to strengthen the Company's entrusted investment management. The Company adhered to the principle of "independent investment first, entrusted investment second" in expanding its bond entrusted investment business. During the reporting period, in response to the changes in the financial regulatory policies and the continuous adjustment in the bond market, the Company, in light of the investment performance of partner institutions and the demand for financial portfolio allocation, focused on adjusting the structure of bond entrusted investment and strengthening risk management. On the one hand, the Company adjusted the entrusted investment share and selected the best institutions to strengthen cooperation with, based on their performance in terms of return on and risk in investment. On the other hand, the Group continued to consolidate the foundation for entrusted investment risk management with cooperative institutions and base assets at the core to exercise strict penetrating management of base assets and guarantee a steady development of its entrusted investment business. As of the end of the reporting period, the leverage of the Company's entrusted bonds investment was 120.30%, with the risks generally remaining manageable.

Fourthly, the Company continued to promote the transformation of its products by focusing on net worth only. During the reporting period, in compliance with the regulatory guidance, all the newly launched products were rolled-out as net worth-focused products. Net worth-focused products such as "Ju Yi Sheng Jin (聚益生金)", 5-year Sunflower interest increment products and enhanced stock index wealth management products were introduced one after another, which ensured the return of our assets management business to its roots by passing the proceeds and risks of the products to the clients to foster a matured investment attitude of sharing both the gains and risks. As of the end of the reporting period, the balance of our net worth-focused products amounted to RMB1,662.95 billion, representing a year-on-year increase of 5.50%, accounted for 75.81% of the balance of wealth management products, representing a year-on-year increase of 2.93 percentage points.

5 The balance of wealth management products is the sum of the principal, profit and loss on changes in net value of net-worth products and the structured products of customers as at the end of the reporting period.

Asset custody business

In 2017, the asset custody business of the Company continued to grow steadily. As of the end of the reporting period, the balance of entrusted assets was RMB11.97 trillion, representing a year-on-year growth of 17.70%. The annualized custodian fee income was RMB4.855 billion, representing a year-on-year increase of 13.38%. The Company ranked second in the domestic custody industry in terms of both the balance of entrusted assets and custodian fee income. During the reporting period, the Company actively implemented its business strategy of leading the development of custodian services with finance and technology. The Company led the industry in launching the first custodian Big Data platform in China and pioneered the full-cycle management of custodian products. The Company continued to optimise the functions and business processes of the custodian systems, and maintained a leading edge in custodian technology with wide recognition from the industry. Furthermore, the Company's professional value-added services continued to win the acclaim from custodian clients while the amount of overseas assets under custody grew rapidly. These efforts succeeded in capturing awards from domestic and overseas financial media and capital market professional service agencies, and as a result achieving growing influence in the custodian business market. Next, the Company would continue to introduce new functions into the custody system as per the requirements of new regulations on asset management and control, continuously upgrade its capabilities to provide professional services, and adjust the structure of custody business in a timely manner for the purpose of promoting a sustained and steady development of its asset custody business.

Financial markets business

In 2017, facing the growing complexity of the global economy, uncertainty in the capital market and impact of domestic economic restructuring on the financial market continued to intensify. There was increasing fluctuation in the bond market, while the yield in the bond market rose sharply. Turmoil in the foreign exchange market led to a clear downward trend in the U.S. dollar and sharp appreciation of RMB. By adjusting the position structure, reducing high-risky bonds, and vigorously carrying out innovative business and implementing other strategies to actively hedge and smooth out the market volatility, the Company has achieved good returns.

In respect of RMB investment: The Company took the initiative to grasp the trend of the RMB interest rate market and scientifically formulated investment plans through in-depth study of the domestic monetary policies and macroeconomic situation. Firstly, the Company dynamically adjusted the duration strategy according to the market trend, and flexibly selected the tenure according to the curve shape. Secondly, the Company exploited the market volatility to actively adjust our position structure and improve the portfolio return according to the changes in the relative value of different bonds. As at the end of the reporting period, the balance of RMB bond portfolio of the Company was RMB904.678 billion, with a portfolio duration of 3.80 years and a yield of 3.69%.

In respect of foreign currency investment: The Company formulated rational investment plans through close tracking of the monetary policies of the major countries and logical judgment of the international economic situation and market trends. Firstly, the Company maintained a prudent investment strategy and limited the duration of new investments while flexibly adjusting portfolio positions to manage interest rate risks through sensible judgment on interest rates and credit spreads. Secondly, the Company actively participated in the spread transactions of credit bonds and range trading operation to realise interest spread gains. As at the end of the reporting period, the balance of the foreign currency investment portfolio of the Company amounted to USD8.791 billion, with a portfolio duration of 1.13 years and a portfolio yield of 2.53%.

In 2017, the trading volume of RMB exchange rate swaps reached RMB5,029.595 billion, representing a year-on-year increase of 34.07%; the trading volume of RMB-denominated options of the Company (including proprietary trading and trading on behalf of customers) had reached RMB730.985 billion; the trading volume of institutional customer derivatives had reached RMB633.027 billion, representing an increase of 50.21% as compared with the previous year; the income from institutional customer derivatives trading amounted to RMB653 million, representing a year-on-year increase of 3.32%; and the income from precious metals business amounted to RMB377 million, representing a year-on-year increase of 50.20%. According to the data from the China Foreign Exchange Trade System, the trading volume of RMB options of the Company ranked first in the whole interbank market.

3.10.3 Distribution channels

The Company provides products and services via multiple distribution channels. Our distribution channels mainly consist of physical distribution channels and e-banking channels.

Physical distribution channels

The efficiently operated physical outlets of the Company are primarily located in the more economically developed regions of China such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and certain large- and medium-sized cities in other regions. As at 31 December 2017, the Company had 137 branches, 1,681 sub-branches, one dedicated branch-level operation center (credit card center), one representative office, 3,340 self-service centers, 11,382 self-service machines (including 1,610 automatic teller machines and 9,772 deposit-taking and cash withdrawal machines) and 12,936 visual counters, 2 subsidiaries-namely CMB Financial Leasing and China Merchants Fund, and 1 joint venture, namely CIGNA & CMB Life Insurance in more than 130 cities of Mainland China. The Company also has a number of subsidiaries including Wing Lung Bank and CMB International Capital, and a branch in Hong Kong; a branch and a representative office in New York, the United States; a branch and a representative office in London, the UK; a branch in Singapore; a branch in Luxembourg; a representative office in Taipei and a branch in Sydney, Australia.

E-banking channels

The Company values highly the development, improvement and integration of e-banking channels, which serve to effectively relieve pressure on physical outlets of the Company. As of the end of the reporting period, the Company's replacement rate of comprehensive service counter through the retail electronic channel was 98.24%; the rate of rerouting customers from the service counters to visual counters was 74.96%; and the Company's replacement rate of transaction settlement through the whole-sale electronic channel was 93.78%.

Major retail e-banking channels

CMB APP:

The personal mobile banking business of the Company maintained a rapid growth in 2017 with a more active mobile banking user population, and had amassed 3.228 billion logins to its mobile banking application during the reporting period, making it the most dynamic e-channel of the Company. As at 31 December 2017, the total number of CMB APP users in aggregate was 55,793,400, with 40,571,400 annual active users and 26,186,700 monthly active users, and an average monthly login of 12.77 per user, and closer bond was forged between CMB APP and its users. Meanwhile, the CMB APP transaction volume has been increasing rapidly, with 1.032 billion APP transactions and a total transaction amount of RMB17.87 trillion in 2017, up by 40.41% and 47.69% respectively, as compared with the corresponding period of the previous year. Among all these transactions, a total of 26,457,600 transactions belong to wealth management transactions originated by 3,227,700 wealth management customers, representing a year-on-year increase of 132.32% and accounting for 61.70% of the Bank's total number of wealth management transactions and a total wealth management sales value of RMB4.43 trillion, representing a year-on-year increase of 90.13%, and comprised 43.17% of the overall Bank's wealth management sales. China Merchants Bank made great headways in its mobilisation, and CMB APP has become an important front of retail operations.

During the reporting period, the Company putting the development mobile service as its priority and continued to create and upgrade the CMB APP-based mobile financial services platform by launching CMB APP 6.0 to achieve significant progress in intelligent wealth management, providing specialty customer products that include wealth management channels, smart service, "Flash Loan" and "Wealth Check-up", thus building up a smart personal financial assistant that fosters new breakthroughs in terms of smart service, connectivity and interaction, that would enhance core competencies in a more institutionalised retail regime.

CMB Life APP:

In 2017, the Company had successfully launched the 6.0 version of its CMB Life APP to satisfy demands on the consumption value chain over all scenarios and entire life-cycle with the whole range of its e-series loan products, coupled with Fintech solutions such as the intelligent recommendation engine "e-Zhi Dai(e智貸)" to hasten advancement in mobile consumer financial products innovation, and to enhance traffic flow and value output in order to achieve inclusive and intelligent consumer financial products. During the reporting period, users operation on top of CMB Life APP had seen major upgrade through effective utilisation of Fintech to develop a credit card customers' operational regime that facilitates new financial services, ease of payment and effective risk control and service guideline. As at the end of the reporting period, the total number of users on the CMB Life APP platform reached 47.4379 million. Total number of active users comprises 45.0105 million per annum, and 27.3257 million per month.

Smart WeChat Customer Service:

The Company launched the "China Merchants Bank" WeChat Official Account which integrates product functions with current hot issues to facilitate marketing. Product content is enhanced in different facets to increase the brand's popularity among young customer groups so as to help CMB establish itself as an innovative and energetic brand. In 2017, the "China Merchants Bank" WeChat Official Account had accumulated 12,187,800 followers.

Concurrently, the company has constructed a full-fledged credit card customer services management platform, that features a three-tier "fans-association-card holding"customer growth model, to transform customer service from being labour-intensive to technology-intensive, and from being a passive service provider towards being a value-creator. As of the end of the reporting period, fans congregated on third-party credit card channels(including WeChat, Alipay service window and official QQ account) had exceeded 100 million, paving the way for a three-tier "service, branding and marketing" smart service regime.

Direct banking:

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

In 2017, the Company constantly improved the service capability and customer experience for its direct banking. As a result, the online interactive services accounted for 68.68%; the manual telephone access ratio reached 97.81%; the percentage of manual telephone responses within 20 seconds reached 95.45%; and the satisfaction ratio of its telephone customer service reached 99.68%. Our visual counters received an average of 2,345,000 incoming calls per month, with the highest number of single day transactions exceeding 140,000, showing high replacement effect of in-branch non-cash transactions.

In 2017, the Company continued to facilitate the maintenance of gold card and Sunflower customer base for its direct banking, serving 1,450,000 gold card and Sunflower customers, with the cost of customer maintenance effectively reduced. The Company also actively supported the quality micro-finance customers, with 73,400 micro-finance loans renewed, totalling RMB26.027 billion, with a retention rate of 85.17%.

Major wholesale e-banking channels

Online Corporate Banking:

During the reporting period, the Company innovated and launched U-Bank X, the tenth generation online corporate banking platform, making full use of new technologies in the Fintech field to create open and intelligent Internet services, omni-channel and scenario-based payment and settlement products. In addition, the Company took the lead in the application of Blockchain technology to reshape global cash management, innovatively supported enterprises to build their industrial Internet ecosystem with Big Data, and launched various featured products and services including smart "Little U" robot, mobile payment and forward mobile check.

As at 31 December 2017, as per favourable effect of the launch of U-Bank X on the growth of foundational customer groups, online corporate banking customers of the Company had reached 1.3794 million, a year-on-year growth of 25.89%; the number of yearly active customers was 1.0877 million, a year-on-year growth of 25.20%, and the number of monthly active customers was 705,900, a year-on-year growth of 15.57%; total number of transactions reach 384,900,000, a year-on-year growth of 71.73%; Total value of transactions reach RMB113.16 trillion, a year-on-year growth of 10.75%

Corporate Mobile Banking APP:

As at 31 December 2017, the number of the Company's enterprise mobile banking users reached 401,600, representing a growth of 73.85% as compared with the end of the previous year; the number of yearly active customers was 224,600; the number of transactions was 17.8950 million, a year-on-year growth of 204.17%; the amount of transactions reached RMB1,051.968 billion, a year-on-year growth of 243.53%.

3.10.4 IT and R&D

During the reporting period, the Company further clarified its positioning as a Digital Bank and implemented a upgrading plan to enhance its foundational Fintech capabilities; our investment in Cloud Computing, Big Data, Artificial Intelligence, mobile technology, Blockchain, API and network security was further amplified to consolidate our technical support capabilities through upgrade of infrastructure; The Company launched the Xili Cloud Data Center, distributed data warehouse creative lab and the RPA Center of Excellence (Process automation through Robots), finished the construction of Blakchain service platform, and improved customers experience and optimised efficiencies of internal process through technological means.

The Company continued to promote lean development and agile pilot projects and completed 5,573 projects during the reporting period. Emphasising mobile priority and data priority, the Company released CMB APP 6.0, so as to consolidate a "outlet + APP + scenario" model, and to enriching the content within this life-cycle; Marketing-oriented transformation is realised in visual counters; the enterprise online banking service was upgraded as U-Bank X, to provide an open and intelligent online banking service. Promoting end-to-end application of data, as well as greatly enhancing the storage capacity of data warehouse and Big Data platform, and timeliness in data processing and application, the Company also facilitated the development of consumer finance and was among the first group of institutions connected to the payment and clearing platform of the non-bank payment institutions network by launching such new products and services as the China UnionPay Cardless Quick Pay, China UnionPay QuickPass with QR Code, the new Flash Loan platform and scenario-based credit card consumer credit products. The launch of its next-generation financial market business system (Murex) has significantly enhanced its transaction banking service capability; with the development of its big credit platform, the Company aimed to establish a full-flow risk management system. The Company also actively facilitated the planning and development of its overseas branch system as it completed its overseas credit risk management system, overseas customers relations management system, overseas edition of Internet banking for companies and operating risk management system, facilitated the development of overseas private banking system, and completed and launched the core system in its Sydney Branch.

Besides, the Company attached great importance to optimising its IT structure and development of infrastructure, strengthening systematic management for maintenance of system operation, advancing the construction of the distributed database and enhancing its service capability for system operation and maintenance, with its information system well-prepared and handling the transaction peaks with ease during the reporting period, such as the "Double 11 (11 November)". The Company also consolidated its software engineering capability, aiming to establish a dual-mode lean R&D system through the software process management system CMMI3 level re-evaluation. The Company also increased its efforts in attracting and fostering hi-tech talents. With the Chengdu Software Center commencing operation, business development of the entire Bank is now supported by three software centers in Shenzhen, Hangzhou and Chengdu and two data centers in Shenzhen and Shanghai.

3.10.5 Overseas businesses

Hong Kong Branch

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

In 2017, our Hong Kong Branch exploited Hong Kong's advantages as a "bridge-head" for China's foreign trade as well as an international financial center, and took a firm hold of the market opportunities arising from Chinese enterprises "going global" and the "One Belt, One Road" initiative to constantly promote cross-border business coordination, proactively developed the local market and expand its market share. Meanwhile, it further strengthened risk compliance and internal basis management, constantly improved and innovated its product and service systems and strove to explore the asset operation model. As a result, all its businesses achieved healthy development. In 2017, the Private Wealth Management (Hong Kong) Center of China Merchants Bank commenced operation, offering a more diversified, more professional and better financial services to high net-worth customers. During the reporting period, the Hong Kong Branch realised a net operating income of HK$2.919 billion and a profit before tax of HK$2.154 billion.

New York Branch

Established in 2008, the Company's New York Branch represents the first Chinese-funded bank approved in the U.S. since the US Foreign Bank Supervision Enhancement Act in 1991. As an integral part of the internationalisation of the Company's operations, the New York Branch is located in a global financial center, being committed to establishing a cross-border financial platform characterised by mutual coordination between China and the U.S., so as to offer diversified and all-round banking services for the companies and high-net-worth private banking customers in China and the U.S..

In 2017, the New York Branch consolidated its resources to expand its cross-border M&A business by changing itself as situations change, deepening business transformation and proactively implementing the "light-operation, professional operation and investment banking" strategy, and proactively developed local businesses in the US, asset management, project financing, private banking and financial market. As a result, various businesses saw substantial progress in product innovation and customer accumulation, laying a solid foundation for the subsequent business transformation of the New York Branch. During the reporting period, our New York Branch realised a net operating income of USD104 million and a profit before tax of USD50,514,700.

Singapore Branch

Established in 2013, our Singapore Branch is positioned as a significant cross-border financial platform in Southeast Asia, striving to provide the premium cross-border financial services to the Chinese companies "going global", Singaporean companies "being brought in" and high-net-worth individual customers. In addition to the general deposit and loan services, it also offers featured products including delisting financing, M&A financing, Reits syndicated loans, Cross-border Trade Express and global financing.

In 2017, while facing the adverse external environment of market depression and increasingly intensive competition, the Singapore Branch adhered to the strategy of developing cross-border finance and local businesses simultaneously, grasped market opportunities to proactively develop emerging businesses such as M&A financing and real estate trust financing, and served strategic customers from domestic branches of the Company to go global and participate in the infrastructure construction of those countries involved in the "One Belt, One Road" initiative, realising steady growth in various businesses. During the reporting period, our Singapore Branch realised a net operating income of USD15,797,500.

Luxembourg Branch

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

In 2017, the Luxembourg Branch adapted itself to changes in the relevant policies, exploited market opportunities such as M&A financing, and achieved steady business growth by improving operation efficiency and strengthening its cooperation with other banks and financial institutions at home and abroad. During the reporting period, our Luxembourg Branch realised a net operating income of €9,581,600.

London Branch

Established in 2016, the London Branch of the Company is the first branch approved to be established in the United Kingdom among all the PRC joint-stock commercial banks and also the first branch established in the United Kingdom directly by a bank in Mainland China since the founding of the PRC. It mainly focuses on corporate banking business and provides customers with diversified corporate banking products and services, such as deposits, loans (including bilateral loans, syndicated loans, trade finance and cross-border M&A financing), settlement and asset custody. It also engages in interbank transaction of funds, bonds and foreign exchange trading, and conducts funds clearing and asset transfer with other financial institutions.

In 2017, the London Branch adhered to the development philosophy of "compliant operation, strict risk control, people-oriented and healthy development", focused on serving the Chinese enterprises "going global" and proactively penetrated into local markets. As a result, it has successfully established itself in London, an international financial center, posted satisfactory operating results and made profit in the second year of its establishment. During the reporting period, the London Branch realised a net operating income of USD12,593,100.

Sydney Branch

Established in 2017, the Sydney Branch of the Company is the first branch approved to be established in Australia among all the PRC joint-stock commercial banks. Relying on the economic and trade exchanges between China and Australia, it proactively participates in the extensive cooperation between the two countries in the fields of energy, minerals, trade and infrastructure development, facilitates the cooperation between the enterprises of the two countries, proactively serves and promotes the economic exchange and development of the two countries, and offers its customers the diversified financial products and services such as cross-border corporate finance, funds clearing, financial market, trade finance and cash management. The establishment of the Sydney Branch further expanded and improved the Company's global presence, forming a global service network across four continents: Asia, Europe, America and Australia.

In 2017, on the basis of compliant operation, the Sydney Branch endeavored to promote various business developments, successfully made a "good start" in business development, and proactively established a steady and sustainable development model with its own characteristics. During the reporting period, the Sydney Branch realised a net operating income of AUD2,852,600.

3.10.6 Wing lung group

Founded in 1933, Wing Lung Bank has a registered capital of HK$1.161 billion as at 31 December 2017, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of Wing Lung Bank and its subsidiaries comprise deposit-taking, lending, investment and wealth management, credit cards, online banking, documentary bills, leasing and hire purchase loans, foreign exchange, securities brokerage, asset management, insurance business, mandatory provident fund, property management, trustee, nominee and investment banking services. At present, Wing Lung Bank has a total of 34 banking offices in Hong Kong, 4 branches and sub-branches in Mainland China, one branch in Macau, and three overseas branches, located respectively in Los Angeles and San Francisco, the United States and the Cayman Islands. As at 31 December 2017, the total number of employees of Wing Lung Group is 1,836.

In 2017, profit attributable to the shareholders of Wing Lung Group was HK$3.858 billion, representing an increase of 10.34% as compared with the previous year. It recorded a net interest income of HK$3.638 billion in 2017, representing an increase of 5.50% as compared with the previous year. The net interest margin was 1.40%, down by 10 basis points as compared with the previous year. The net non-interest income was HK$2.222 billion, representing a decrease of 11.92% as compared with the previous year. The cost-to-income ratio for 2017 was 33.33%, representing an increase of 0.22 percentage point as compared with the previous year. The non-performing loan ratio (including trade bills) was 0.54%.

As at 31 December 2017, the total assets of Wing Lung Group amounted to HK$298.767 billion, representing an increase of 11.62% as compared with the end of previous year. Total equity attributable to shareholders amounted to HK$33.133 billion, representing an increase of 13.11% as compared with the end of the previous year. Total loans and advances to customers (including trade bills) amounted to HK$156.248 billion, representing an increase of 8.32% as compared with the end of the previous year. Deposits from customers amounted to HK$210.964 billion, representing an increase of 14.50% as compared with the end of the previous year. The loan-to-deposit ratio was 69.69%, down by 3.32 percentage points as compared with the end of the previous year. As at 31 December 2017, the common equity Tier-1 capital ratio of Wing Lung Group was 12.25%, its Tier-1 capital ratio was 14.44%, its total capital ratio was 18.23% and its average liquidity coverage ratio for the fourth quarter was 150.24%, all above regulatory requirements.

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

3.10.7 CMB financial leasing

CMB Financial Leasing is one of the five pilot bank-affiliated financial leasing firms approved by the State Council. It was established and wholly owned by the Company with a registered capital of RMB6.0 billion and 257 employees in March 2008 upon approval from China Banking Regulatory Commission. Since its inception, CMB Financial Leasing has adhered to its operation and development goal of "internationalisation, professionalisation and differentiation", focused closely on real economy to proactively develop various leasing products and launched the financial solutions for the eight sectors of energy, equipment manufacturing, aviation, shipping, energy saving and environmental protection, health industry, public utilities and culture, and leasing. It satisfies different needs in respect of procurement of equipment, promotion of sales, revitalisation of assets, balancing of tax liabilities and improvement of financial structure. CMBFL also provides a full range of financial leasing services such as capital and commodity finance, asset management and financial advisory. As at the end of 2017, balance of the Company's leasing assets exceeded RMB150.0 billion, ranking firmly among the first tier in the financial leasing industry.

As at 31 December 2017, the total assets of CMB Financial Leasing amounted to RMB155.415 billion, and its net assets amounted to RMB15.582 billion. In 2017, CMB Financial Leasing achieved a net profit of RMB1.959 billion.

3.10.8 CMB International Capital

Established in 1993, CMB International Capital is a wholly-owned subsidiary of the Company in Hong Kong, with a registered capital of HK$4.129 billion and 356 employees. Currently, the business scope of CMB International Capital and its subsidiaries mainly covers investment banking, asset management, wealth management, stock trading and structured finance. As at the end of 2017, CMB International Capital had a market share of 6.29% in terms of IPO underwriting in Hong Kong , representing an increase of 1.02 percentage points as compared with the end of the previous year.

As at 31 December 2017, the total assets of CMB International Capital amounted to HK$16.426 billion, and its net assets amounted to HK$7.053 billion. In 2017, CMB International Capital recorded a net profit of HK$582 million.

3.10.9 China Merchants Fund

Established on 27 December 2002, China Merchants Fund had a registered capital of RMB1.31 billion and 355 employees (excluding those of its subsidiaries). As at the end of the reporting period, the Company had 55% of equity interests in China Merchants Fund. The business scope of China Merchants Fund covers fund establishment, fund management and other operations approved by the CSRC.

As at 31 December 2017, the total assets of China Merchants Fund amounted to RMB6.648 billion, and its net assets amounted to RMB3.976 billion. The total size of the asset management business (including China Merchants Fund and its subsidiaries China Merchants Wealth Management Co., Ltd. (招商財富資產管理有限公司) and China Merchants Asset Management (Hong Kong) Co., Ltd. (招商資產管理（香港）有限公司)) amounted to RMB995.165 billion. In 2017, China Merchants Fund realised a net operating profit of RMB2.747 billion, and a net profit of RMB803 million.

3.10.10 CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance was established in Shenzhen in August 2003, and is the first Sino-foreign joint venture life insurance company established after China's entry into the World Trade Organisation (WTO), with a registered capital of RMB2.8 billion and 3,098 employees. As at the end of the reporting period, the Company had 50% of equity interests in CIGNA & CMB Life Insurance. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance and accident injury insurance, as well as the reinsurance of the above insurances.

As at 31 December 2017, the total assets of CIGNA & CMB Life Insurance amounted to RMB35.942 billion, and its net assets amounted to RMB4.790 billion. In 2017, CIGNA & CMB Life Insurance realised a premium income of RMB12.814 billion, and a net profit of RMB666 million.

3.11 Risk management

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

In 2017, against the backdrop of complicated and volatile economic environment at home and abroad and the increasing risk in bank operations, the Company continued to improve its overall risk management system and proactively overcome and prevent all kinds of risk.

3.11.1 Credit risk management

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

Firstly, improving and completing the concentrated risk management mechanism while fortifying the comprehensive risk management mechanism. The Company has been improving its risk management organisation structure and enhancing its risk management specialty and independence while optimising the risk preference conveyance and management mechanism, fortifying the identification, assessment and management mechanism of major risks of China Merchants Bank; strengthening cross-risk management, standardising product innovation activities, reinforcing the principle of "penetration", strictly controlling the selection of counterparties and cooperative institutions, thereby further strengthening the overall risk management. **Secondly, keeping up the optimisation of the asset portfolio configuration while steadily making adjustment to its asset structure.** While adhering to its asset portfolio configuration objectives, the Company has been making dynamic adjustment to its regional credit policy and actively supporting the national major strategies and key projects. Through strict implementation of the customer list management at the Head Office and its branches for strategic customers and industrial customers which should be compressed and expelled and adopting a differential management strategy, the Company has been constantly consolidating its customer base. **Thirdly, strengthening the control of asset quality and risk screening and follow-up in the key areas while enhancing the sensitivity and perspectiveness of risk identification.** The Company conducted careful screening of risks in respect of major corporate customers, adjusted the list of customers subject to early warning and specified control measures for each and every customer. Attaching importance to overdue loans and tightening its control on them, the Company optimised loan structure. It has also established a risk quick reporting mechanism for timely reporting of new large non-performing assets, risks and major emergencies. **Fourthly, optimising the portfolio of non-performing assets while improving the management of non-performing assets.** The Company has been continuously promoting the securitized disposal of non-performing assets, strengthening clearing and collection of non-performing assets in cash while actively promoting the write-off of non-performing assets, prudently promoting the healthy restructuring of risky customers and continuously improving its non-performing assets management capacity with multiple approaches. **Fifthly, consolidating the management foundation while comprehensively promoting the whole-process credit optimisation**. By sorting out and optimising such key processes as pre-loan investigation, credit approval, credit implementation, credit withdrawal and post-credit management, the Company has reconstructed its credit process management system and completed the supporting system revision and authorisation adjustment, thus reinforcing the whole-process of risk management and control. **Sixthly, actively deepening the application of Fintech and upgrading the professional techniques on risk management.** The Company explored the use of new technologies to drive the credit process and improve the automation, process, specialisation and concentration of its credit operation while promoting project development and optimisation such as risk rating and early warning models and setting up the expected loss and provision models under IFRS 9, thus further enhancing the practicability and accuracy of the Company's quantified risk management tools.

During the reporting period, the Company's non-performing loans have been further reduced and asset quality has been effectively controlled through the above-mentioned measures. For more information about the Company's credit risk management, please refer to Note 56 "Risk Management" in the Financial Statements.

3.11.2 Country risk management

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

The Company has incorporated country risk management into its overall risk management system. In accordance with relevant regulatory requirements, the Company dynamically monitored the change in its country risk profile, used its sovereign rating model to set limit on its country risk with reference to external rating results, and evaluated its country risk and made provisions on a quarterly basis. As at 31 December 2017, the assets of the Company exposed to the country risk remained insignificant, and this indicated low country risk ratings. Moreover, we have made adequate provision for country risk according to the regulatory requirements. As a result, the country risk will not have material effect on our operations.

3.11.3 Market risk management

The Company's market risk arises from trading book and banking book, and the interest rate risk and exchange rate risk are the major market risks facing the Company.

1. Interest rate risk management

(1) Trading book

The Company uses various risk indicators, including volume indicators, market risk value indicators (VaR, covering various interest rate risk factors relating to trading book business), interest rate stress testing loss indicators, interest rate sensitivity indicators and accumulative loss indicators, to measure and manage the interest rate risk of trading book. The interest rate risk factors used for risk measurement cover all businesses under the trading book, and are comprised of around 110 yield curves of interest rates or bonds. VaR includes general VaR and stress VaR, which are both calculated using the historical simulation model and adopt a confidence coefficient of 99%, an observation period of 250 days and a holding period of 10 days. The interest rate stress testing scenario includes the parallel move, steep move and twisted change of interest rates at various degrees and various unfavorable market scenarios designed on the characteristics of investment portfolios. Among which, the extreme interest rate scenario may move up to 300bp and cover the unfavorable conditions of extreme market. Major interest rate sensibility indicator reflects the duration of bonds and the change in the market value of bonds and interest rate derivatives when an interest rate fluctuates unfavorably by 1bp. As for daily risk management, the scope of authorisation and the market risk limits for the interest rate risk businesses under the trading book are set in accordance with the risk appetite, operation plan and risk prediction of the Board of Directors at the beginning of the year for which the market risk management department is responsible for daily monitoring and continuous reporting.

In 2017, the RMB interest rates obviously fluctuated upward. In the first quarter, affected by financial regulation, the Central Bank's raising of medium-term lending facility rate and repurchase bidding rate, economic and financial data and other factors, the bond market continued to head down from the end of 2016. In the second quarter, affected by a series of the regulatory policies for deleveraging, the short-term interest rates rose sharply and the yield curve showed a flattening trend. In the third quarter, the bond market kept fluctuating. In the fourth quarter, affected by the dual effect of the monetary policy and the financial regulatory policy, the bond market once again saw significant adjustments, with the 10-year treasury bond yield hitting a new high since October 2014. In 2017, as the bond market generally fluctuated downward, the Company adopted a defensive strategy to timely shorten portfolio duration and dynamically adjust product types and investment directions in respect of its RMB bond portfolio for trading book, so as to keep the interest rate risk for trading book within the target range.

(2) Banking book

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

In 2017, the benchmark interest rate of deposit and loan of the Central Bank remained unchanged, with the rise in market interest rate fluctuations. The Company closely monitored the change of external interest rate environment and conducted in-depth analysis and forecast on the market interest rate development through macro-modeling while making timely adjustment to the strategy and strength of the proactive management of interest rate risks and optimising the structure of assets and liabilities, as a result of which the results of stress test showed that the various indicators stayed within the limits and early warning values, and the bank account-related interest rate risks were confined at a relatively low level.

In November 2017, the CBRC issued the Guidelines on the Management of Interest Rate Risk of Bank Book of Commercial Banks (Revised Consultation Draft). After analysing the differences between each newly added item, the Company has generally satisfied the regulatory requirements in measurement, system and model, only appropriate supplements and improvements for existing policies and systems with reference to the revised consultation draft would be required subsequently.

2. Exchange rate risk management

(1) Trading book

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

In early 2017, the irreversible depreciation of RMB was expected to be more obvious, but RMB actually appreciated, the market expectation on RMB exchange rate started to change since the second quarter, RMB appreciated intensely, and soared to 6.44 against USD in August, hitting the new peak in recent two years. The continuous decrease of implied volatility of USD against RMB options also reflected the changes in market expectation and the supply-demand relationship. Against such a background, the Company exerted proper control over the exposure of the proprietary foreign exchange business, especially the directional exchange rate exposure, to snatch profits through trading on behalf of customers and spread transactions.

(2) Banking book

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

In 2017, the Company paid close attention to exchange rate movements, strengthened the analysis of the U.S. macro-economy to grasp the latest international economic conditions, and further optimised the measurement of the exchange rate risk of bank book. As a result, the exchange rate risk of the Company is generally stable with all the core limit indicators, general scenario and stress testing results satisfying the regulatory limit monitoring requirement. Subsequently, the Company will continue to monitor international economic development and exchange rate movements closely, strengthen exchange rate risk monitoring of banking book and limit authority management to ensure that risks are kept within reasonable limits and to prevent the two-way fluctuations of exchange rate.

Please refer to Note 56 "Risk Management" of the financial report for more details of the market risk management of the Company.

3.11.4 Operational risk management

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

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company further improved its operational risk management. **Firstly**, the Company fully implemented special governance on low-risk businesses. Starting with the processes, regulations, personnel and systems, the Company completed the risk screening for 34 products in 8 major categories of business. Focusing on issues found in key control processes, the Company refined and solidified its management requirements, encouraged its employees across the Bank to earnestly understand the specific operational practices, so as to guard the bottom line of risks. **Secondly**, the Company continued to conduct risk assessment for key businesses and explored operational process monitoring. **Thirdly**, the Company strengthened its monitoring of personnel risks. The Company conducted assessment on abnormal behaviours of 14 key positions, investigated and verified the employees with abnormal behaviour of violation in a timely manner, and carried out continuous monitoring of personnel risks using off-site monitoring models. The Company also monitored the resignations, the number of juniors and manpower allocation in key positions, and gave risk alerts to institutions with relatively high proportions of resignation and the number of juniors. **Fourthly**, the Company fully strengthened its IT risk management, promoted the establishment of business continuity management system, and identify the lists of latest important businesses and important systems of the Head Office. **Fifthly**, the Company strengthened the management of outsourcing-related risk. The Company rectified the problems found during the inspections in a timely manner. The Company also conducted comprehensive review on newly added outsourced products and items, and carried out on-site assessment on the departments of implementation of part of the outsourced projects, so as to improve the control measures for outsourcing-related risks. **Sixthly**, the Company strengthened the management of risks related to compliance in credit investigation. The Company improved the establishment of compliance management system and appraisal and assessment system in relation to credit investigation, and alerted the whole Bank to pay attention to the compliance risks related to credit investigation from multiple aspects. By promoting the technological innovation in credit investigation system, the Company continued to improve the quality of data submitted, compliance in credit inquiry and risk monitoring of the Company. The Company also organised on-site inspections on compliance of credit investigation across the Bank, so as to rectify the problems found in a timely manner. **Seventhly**, the Company further optimised the fundamental platform for operational risk management. The Company initiated the migration of historical data, so as to enhance the efficiency of operational risk management system. It also developed the English version of system, so as to enhance the operational risk management of overseas branches, and completed the system establishment for subsidiaries.

3.11.5 Liquidity risk management

The Company's cautious attitude towards liquidity risk is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company are basically in line with regulatory requirements and its own management requirements.

In 2017, under the background of financial deleverage and US interest hike, the central bank maintained a neutral monetary policy and accurate adjustments which focused on safeguarding the master valves of money, so as to maintain overall stable market liquidity. The liquidity of the Company was basically in line with that of the market, and overall liquidity was relatively stable due to steady growth in deposits from customers and the progressive investment of assets. As at 31 December 2017, the Company's liquidity coverage ratio was 101.76%[6], representing 11.76 percentage points higher than the minimum requirement of CBRC. Stress tests[7] conducted for local currency and foreign currencies at light, medium and heavy levels all reached their respective minimum sustainable requirements of no less than 30 days, leading to a better contingency buffer capacity for both local currency and foreign currencies. 15% (2016: 15%) of the total RMB deposits and 5% (2016: 5%) of the total foreign currency deposits were required to be placed with the PBOC.

6 Liquidity coverage ratio is an external regulatory indicator – the legal person calibre

7 The stress test is the Company's internal management indicator – the domestic calibre

In response to the market environment and the liquidity profile of the Company, the Company implemented the following measures to enhance liquidity management. Firstly, the Company strengthened the exploration of proprietary deposits, and promoted the steady increase of its core liabilities. Secondly, the Company optimised its asset structure, adjusted the progress of granting of corporate loans, so as to realise the steady operation of loans. Thirdly, the Company strengthened its management of active liability taking by flexibly conducting short-, medium- and long-term active liability taking according to its own liquidity profile and market interest rate trend, including proactively participating in the medium-term lending facility from and the operation in the open market launched by the Central Bank, and launched the issuance of financial debts as the appropriate opportunities arose. Fourthly, the Company enhanced its research and judgment in macro-economy, through macro analysis, quantitative modeling and dynamic measurement and calculation, the Company carried out proactive risk management, and proactively laid down investment and financing strategies, in an attempt to improve capital utilisation efficiency. Fifthly, the Company enhanced the monitoring and management of the treasurer's fund gap, established financing capability assessment mechanism, and further lengthened the monitoring period of fund gap for the whole Bank. Sixthly, the Company strengthened liquidity risk management of business lines. Specifically, as for standalone business lines such as bills business and wealth management business, the Company implemented limit management to improve maturity mismatch so as to ensure liquidity risk is under control.

In December 2017, the CBRC issued the Administrative Measures on Liquidity Risk of Commercial Banks (Revised Consultation Draft). After analysing the differences between each item, the Company has generally satisfied the regulatory requirements in management policies, measurement and monitoring, only further supplements and improvements for existing liquidity risk management system with reference to the revised consultation draft would be required subsequently.

Please refer to Note 56 "Risk Management" of the financial report for more details of the liquidity risk management of the Company.

3.11.6 Reputational risk management

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

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

During the reporting period, the Company revised the Administrative Measures on Public Relations and Public Opinions of China Merchants Bank, clarified the duties of each department under the Head Office, each branch and subsidiary, standardised the classification criteria of public opinions, optimised the procedures in responding to public opinions, and further improved the management system of reputational risk management. By strengthening proactive management of reputational risk and specifically enhancing business risk inspection, monitoring and pre-warning of public opinions, the Company effectively mitigated hidden serial reputational risks, and improved the efficiency in responding to public opinions. The Company also improved the appraisal mechanism for reputational risk, and cultivated a reputational risk management culture with all employees' participation.

3.11.7 Compliance risk management

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

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

3.11.8 Anti-money laundering management

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

In 2017, the Company proactively responded to the requirements of the CPC Central Committee and the State Council on improving the regulatory system and mechanism of anti-money laundering, anti-terrorism financing and anti-tax evasion and speeding up the building of an anti-money laundering team, improving anti-money laundering system in accordance with international standards and building a global leading anti-money laundering system and other work. Meanwhile, the Company accelerated its "risk elimination", conducted in-depth inspection on sanctions compliance and risks associated with cross-border money laundering, so as to enhance the management and control of customers and businesses with high risk. The Company fully implemented the Administrative Measures on Large-amount Transactions and Suspicious Transactions of Financial Institutions (PBOC Order [2016] No. 3) and other new regulatory policies, improved the reporting system of suspicious transactions base on reasonable suspicion, and implemented the follow-up risk control measures for suspicious transactions reported. The Company also strengthened the identity recognition of non-residents, and improved the due diligence procedures of customers, so as to further enhance the management and control of anti-money laundering of the Company.

3.12 Profit appropriation

3.12.1 The profit appropriation plan for 2017

10% of the audited net profit of the Company for 2017 of RMB64.510 billion, equivalent to RMB6.451 billion, was allocated to the statutory surplus reserve, while 1.5% of the total balance of the risk assets, equivalent to RMB2.760 billion, was appropriated to the general reserve. Based on the then total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposes to declare a cash dividend of RMB0.84 (tax included) for every share to all shareholders of the Company whose names appear on the register, payable in Renminbi for holders of A Shares and in Hong Kong Dollars for holders of H Shares. The actual appropriation amount in HKD will be calculated based on the average RMB/HKD benchmark rates to be released by the PBOC for the week before the date of the general meeting (inclusive of the day of the general meeting). The retained profit will be carried forward to the next year. In 2017, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2017 Annual General Meeting of the Company.

Further announcement(s) will be made by the Company at appropriate times to shareholders who are entitled to participate in the Company's 2017 Annual General Meeting and those who are entitled to receive the final dividends for 2017, and other related information on the closing date for registration, the period for closure of register of members and information relating to the profit distribution plan. The Company expects that the distribution of final dividends to the H Shareholders will be completed by 26 August 2018.

3.12.2 Profit appropriation for the last three years

Year	Number of bonus shares for every share held (No. of shares)	Cash dividend for every share held (RMB, inclusive of tax)	Number of shares issued on capitalisation of surplus reserve for every share held (No. of shares)	Total cash dividends (inclusive of tax, in millions of RMB)	Net profit attributable to shareholders in the consolidated financial statements for the year (in millions of RMB)	Proportion of cash bonus to net profit attributable to shareholders in the consolidated financial statements (%)
2015	–	0.69	–	17,402	57,696	30.16
2016	–	0.74	–	18,663	62,081	30.06
2017[Note]	–	0.84	–	21,185	70,150	30.20

Note: The proposal of profit appropriation for 2017 is subject to consideration and approval at the 2017 Annual General Meeting of the Company.

3.12.3 The formulation and implementation of the Company's cash dividend policies

1. As specified in the Articles of Association of China Merchants Bank Co., Ltd., the profit appropriation policies of the ordinary shares of the Company are:

   (1) profit appropriation of the Company shall focus on reasonable returns on investment of the investors, and such policies shall maintain continuity and stability;

   (2) the Company may distribute dividends in cash, shares or a combination of cash and shares, and it shall distribute dividends mainly in cash. Subject to compliance with prevailing laws, regulations and the requirements of relevant regulatory authority on the capital adequacy ratio, as well as the requirements of general working capital, business development and the need for substantial investment, merger and acquisition plans of the Company, the cash dividend to be distributed by the Company to shareholders of ordinary shares each year in principle shall not be less than 30% of the net profit after taxation attributable to shareholders of ordinary shares audited in accordance with the PRC accounting standards for that year. The Company may pay interim cash dividend. Unless another resolution is passed at the shareholders' general meeting, the Board of Directors shall be authorized by the shareholder at a general meeting to approve the interim profit appropriation plan;

   (3) if the Company generated profits in the previous accounting year but the Board of Directors did not make any cash profit appropriation proposal after the end of the previous accounting year, the Company shall state the reasons for not distributing the profit and the usage of the profit retained in the periodic report and the Independent Directors shall give an independent opinion in such regard;

   (4) if the Board of Directors considers that the price of the shares of the Company does not match the size of share capital of the Company or where the Board of Directors considers necessary, the Board of Directors may propose a profit appropriation plan in the form of shares and implement the same upon consideration and approval at a general meeting, provided that the abovementioned cash profit appropriation requirements are satisfied;

   (5) the Company shall pay cash dividends and other amounts to holders of domestic shares listed domestically and such sums shall be calculated, declared and paid in Renminbi. The Company shall pay cash dividends and other amounts to holders of H Shares and such sums shall be calculated and declared in Renminbi and paid in Hong Kong dollars. The foreign currencies required by the Company for payment of cash dividends and other sums to shareholders of overseas listed foreign shares shall be handled according to the relevant requirements of foreign exchange administration of the State;

   (6) where appropriation of the Company's fund by a shareholder, which is in violation of relevant rules, has been identified, the Company shall make deduction against the cash dividend to be paid to such shareholder, and such amount shall be used as the reimbursement of the funds appropriated; and

   (7) the Company shall disclose the implementation progress of the cash dividend policy and other relevant matters in its periodic reports in accordance with the applicable requirements.

2. During the reporting period, the profit appropriation plan of the Company for 2016 was implemented in strict accordance with the relevant provisions of the Articles of Association of China Merchants Bank Co., Ltd.. It was considered and approved by the 10th meeting of the Tenth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2016 Annual General Meeting. The criteria and proportion of cash dividend were clear and specific, and the Board of Directors of the Company has implemented the profit appropriation plan. The profit appropriation plan of the Company for 2017 will also be implemented in strict accordance with the relevant provisions of the Articles of Association of China Merchants Bank Co., Ltd.. It will be considered and approved by the 22nd meeting of the Tenth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2017 Annual General Meeting. The Independent Directors of the Company have expressed their independent opinions on the profit appropriation plans for 2016 and 2017 that the profit appropriation plans of the Company and their implementation process have provided adequate protection for the legitimate rights and interests of minority investors.

3.13 Requirements of the Environmental, Social and Governance Reporting Guide

During the reporting period, adhering to the social responsibility principle of "Gain from society and contribute to society", the Company actively made contribution and fulfilled its social responsibilities on precise poverty alleviation, green loans, support to SMEs, protection of consumers' interests, public welfare and employee care. For more details, please refer to the "Corporate Social Responsibility Report of China Merchants Bank for 2017", which is available on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company. The relevant disclosures are in compliance with the requirements of the Environmental, Social and Governance Reporting Guide issued by the Hong Kong Stock Exchange.

3.14 Compliance with relevant laws and regulations

So far as the Board of Directors is aware, during the reporting period, the Company has complied in all material respects with the relevant laws and regulations that have a significant impact on the operations of the Company.

3.15 Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the year.

3.16 Permitted indemnity provision

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

By order of the Board of Directors
Li Jianhong
Chairman of the Board of Directors
23 March 2018

Important Events

4.1 Principal business activities

The Company is engaged in banking and related financial services.

4.2 Financial highlights

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

4.3 Shareholders' equity

For details of changes in shareholders' equity of the Company, please refer to the "Consolidated Statement of Changes in Shareholders' Equity" in the financial report of the Company.

4.4 Fixed assets

Changes in fixed assets of the Company as at 31 December 2017 are set out in Note 25 to the financial statements in this annual report.

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

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

4.6 Pre-emptive rights

There is no provision for pre-emptive rights under the Articles of Association of the Company and the shareholders of the Company have not been granted any pre-emptive rights.

4.7 Retirement and welfare

Details about retirement and welfare provided by the Company to its employees are set out in Note 38 to the financial statements in this annual report.

4.8 Principal customers

As at the end of the reporting period, the net operating income from the top 5 customers of the Company did not exceed 30% of the total net operating income of the Company.

4.9 Interests and short positions of Directors, Supervisors and chief executives under Hong Kong laws and regulations

As at 31 December 2017, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO in Hong Kong), which are required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

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

4.10 Directors' interests in the businesses competing with those of the Company

As far as the Company is aware, none of the Directors of the Company has any interests in the businesses which compete or are likely to compete, either directly or indirectly, with those of the Company.

4.11 Financial, business and kinship relations among Directors, Supervisors and senior management

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

4.12 Contractual rights and service contracts of Directors and Supervisors

During the reporting period, the Directors and Supervisors of the Company have no material interests in contracts of significance to which the Company or any of its subsidiaries was a party. None of the Directors and Supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (excluding statutory compensation).

4.13 Disciplinary actions imposed on the Company, Directors, Supervisors, or senior management

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

4.14 Explanation about the integrity profile of the Company

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

4.15 Undertakings made by the Company, Directors, Supervisors, senior management and other connected persons

In the course of the rights issue of A shares and H shares in 2013, each of China Merchants Group Ltd., China Merchants Steam Navigation Co., Ltd. (now renamed as China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司)) and China Ocean Shipping (Group) Company (now renamed as China Ocean Shipping Company Limited) had undertaken that they would not seek for related party transactions on terms more favorable than those given to other shareholders; they would repay the principal and interest of the loans granted by the Company on time; they would not interfere with the daily operations of the Company. Should they participate in the subscription of the rights shares, they would neither transfer nor entrust others to manage the allocated shares within five years from the delivery of such shares, nor would they seek for a repurchase by the Company of the allocated shares held by them. Upon expiration of the lock-up period of the allocated shares, they would not transfer their allocated shares until they obtain the approval from the regulatory authorities on the share transfer and the shareholder qualification of transferees; and upon obtaining the approval from the Board of Directors and shareholders' general meeting of the Company, they would continue to support the reasonable capital needs of the Company; they would not impose unreasonable performance indicators on the Company. For details, please refer to the A Share Rights Issue prospectus dated 22 August 2013 on the website of the Company (www.cmbchina.com). So far as the Company is aware, as at the date of the report, the above shareholders had not violated the aforesaid undertakings.

According to the relevant requirements of China Securities Regulatory Commission, the Company considered and approved the "Resolution Regarding the Dilution of Current Returns by the Non-public Issuance of Preference Shares and the Remedial Measures" at its 2016 Annual General Meeting on 26 May 2017, and formulated the remedial measures in respect of the dilution of current returns of the holders of ordinary shares which may be caused by the non-public issuance of preference shares. The measures include adhering to the business strategies of "Light-operation Bank" and "One Body with Two Wings", creating differentiated competitive advantages, strengthening the awareness of capital constraints and return on capital, striving to reduce capital consumption, improving the efficiency of capital utilisation, strengthening the management of asset quality, and maintaining a stable return policy for the holders of ordinary shares. Meanwhile, the Directors and senior management of the Bank also undertook to earnestly implement the remedial measures. So far as the Company was aware, as at the date of this report, neither the Company nor its Directors and senior management had breached any of the aforesaid undertakings.

According to the "Resolutions Regarding the Plan for the Non-public Issuance of Offshore Preference Shares of the Company" considered and approved by the Company at the 2016 Annual General Meeting, the First Class Meeting of the Shareholders of A Shares for 2017 and the First Class Meeting of the Shareholders of H Shares for 2017 on 26 May 2017, COSCO Shipping Financial Holdings Co., Limited, as a related legal person of the Company, undertook not to participate in the price inquiry exercise regarding the dividend yield of offshore preference shares, and accepted the dividend yield determined by the Company and the lead underwriter through the price inquiry exercise or by the other ways approved by the CSRC. In October 2017, the Company completed the issuance of offshore preference shares, including 3,500,000 preference shares subscribed by COSCO Shipping Financial Holdings Co., Limited. During the issuance of offshore preference shares, COSCO Shipping Financial Holdings Co., Limited did not violate the above undertakings.

4.16 Significant connected transactions

4.16.1 Overview of connected transactions

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

On 18 August 2017, the Company, CM Securities and CMFM entered into a capital increase agreement to CMFM, pursuant to which the Company and CM Securities agreed to increase their capital contribution in CMFM by RMB605 million and RMB495 million respectively. Upon completion of the capital increase, the Company and CM Securities will continue to hold 55% and 45% equity interest in CMFM, respectively. Therefore, CMFM will continue to be a subsidiary of the Company. For details, please refer to the announcement in relation to the connected transaction of the Company dated 18 August 2017.

4.16.2 Non-exempt continuing connected transactions

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

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

CMFM Group

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

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

On 13 December 2016, the Company entered into a Service Cooperation Agreement with CMFM for a term commencing on 1 January 2017 and expiring on 31 December 2019. The Agreement was entered into on normal commercial principles after an arm's length negotiation. The service fees payable by CMFM Group will be calculated at the rates specified in the fund offering documents and/or the offering prospectuses and shall be settled to the Company under the Agreement.

The annual cap for the continuing connected transactions between the Company and CMFM Group for 2017 was RMB2.5 billion, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements under the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2017, the amount of the continuing connected transactions between the Company and CMFM Group was RMB1.406 billion.

CM Securities Group

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

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

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

The annual cap for the continuing connected transactions between the Company and CM Securities Group for 2017 was RMB500 million, in respect of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

As at 31 December 2017, the amount of the continuing connected transactions between the Company and CM Securities Group was RMB207 million.

Anbang Insurance Group

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

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

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

The annual caps for the continuing connected transactions between the Company and Anbang Insurance Group for the year of 2017 were RMB1.5 billion, of which the relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules was less than 5%. Therefore, these transactions would be subject only to the reporting, announcement and annual review requirements, and exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

As at 31 December 2017, the amount of the continuing connected transactions between the Company and Anbang Insurance Group was RMB843 million.

4.16.3 Confirmation from the Independent Non-Executive Directors and auditors

The Independent Non-Executive Directors of the Company had reviewed the above-mentioned non-exempt continuing connected transactions between the Company and each of CMFM Group, CM Securities Group and Anbang Insurance Group and confirmed that:

(1) the transactions were entered into in the ordinary and usual course of business of the Company;

(2) the terms of the transactions are fair and reasonable, and are in the interest of the Company and its shareholders as a whole;

(3) the transactions were entered into on normal commercial terms or better terms; and

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

Furthermore, the Company has engaged Deloitte Touche Tohmatsu to review the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board of Directors has confirmed the findings, conclusions and the unqualified letter issued by Deloitte Touche Tohmatsu in respect of the aforesaid transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules. A copy of the letter has been provided by the Company to SEHK.

4.17 Material transactions with related parties

The Company's material transactions with related parties are set out in Note 57 to the financial statements. These transactions entered into with related parties of the Company were in the ordinary course of its business including lending, investment, deposit-taking, securities trading, agency services, custody and other trust services and off-balance sheet transactions. These transactions were entered into by the Company on normal commercial terms in the ordinary and usual course of business, and those which constituted connected transactions under the Hong Kong Listing Rules were in compliance with the applicable requirements of the Hong Kong Listing Rules.

4.18 Material litigations and arbitrations

Several lawsuits were filed during daily operation of the Company, most of which were filed for the purpose of recovering of the non-performing loan. As at 31 December 2017, the number of pending litigation and arbitration cases in which the Company was involved totalled 253 with a total amount of principal and interest of approximately RMB1.184 billion. The Company believed that none of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

4.19 Material contracts and their performance

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

During the reporting period, none of the material contracts of the Company involving holding in custody, contracting or hiring or leasing of any assets of other companies by the Company or vice versa was entered into beyond the normal business scope of the Bank.

Significant guarantees

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

Explanatory notes and independent opinions of the Independent Non-Executive Directors towards the guarantees of China Merchants Bank

In accordance with CSRC Approval [2003] No.56 and the relevant provisions of Shanghai Stock Exchange, the Independent Non-Executive Directors of China Merchants Bank carried out a due diligence review of the guarantees of China Merchants Bank for 2017 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of CMB was approved by the CBRC, and it was carried out in the ordinary course of business of the banks as a conventional business. As at 31 December 2017, the balance of the irrevocable guarantees of China Merchants Bank was RMB252.867 billion.

China Merchants Bank emphasises risk management of the guarantee business. It has formulated specific management measures and operation workflow according to the risk profile of this business. In addition, the Company has enhanced risk monitoring and safeguarded this business through management means such as on-site and off-site checks. During the reporting period, the guarantee business of China Merchants Bank was in normal operation and there were no non-compliant guarantees.

4.20 Significant event in respect of fund entrusting

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

4.21 Use of funds by related parties

During the reporting period, neither the substantial shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through (among others) any related transactions not entered into on an arm's length basis. Deloitte Touche Tohmatsu Certified Public Accountants LLP, being the auditor of the Company, has issued a special audit opinion in this regard.

4.22 Appointment of accounting firms

According to the resolutions passed at the 2016 Annual General Meeting, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic accounting firm of the Company for 2017 and Deloitte Touche Tohmatsu as the international accounting firm of the Company for 2017. These two certified public accountants have been engaged as auditors of the Company since 2016.

The financial statements of the Group for 2017 prepared under the PRC Generally Accepted Accounting Principles and the internal control of the Group as at the year end of 2017 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, and the financial statements for 2017 prepared under International Financial Reporting Standards were audited by Deloitte Touche Tohmatsu Certified Public Accountants. The total audit fees (including fees for the audit on the financial statements of our overseas branches, subsidiaries and their respective subsidiaries) amounted to approximately RMB17.3036 million, among which the audit fees for internal control was approximately RMB1.2350 million. The auditor's responsibility statements made by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu Certified Public Accountants regarding their responsibilities for the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively.

4.23 Review of annual results

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu, our external auditors, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and each has issued an unqualified audit report. The Audit Committee under the Board of Directors of the Company has reviewed the financial results and financial statements of the Company for the year ended 31 December 2017.

4.24 Annual general meeting

For the convening of its 2017 Annual General Meeting, the Company will make further announcement.

4.25 Explanation on changes in significant accounting policies

For changes in accounting policies of the Company during the reporting period, please refer to Note 2(b) "Changes in accounting policies" in the Financial Statements.

4.26 Publication of annual report

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

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

Changes in Shares and Information on Shareholders

5.1 Changes in ordinary shares of the Company during the reporting period

		31 December 2016		Changes in the No. of shares during the reporting period	31 December 2017	
		No. of shares	Percentage (%)	No. of shares	No. of shares	Percentage (%)
1.	Shares subject to trading moratorium	–	–	–	–	–
2.	Shares not subject to trading moratorium	25,219,845,601	100.00	–	25,219,845,601	100.00
	(1) Ordinary shares in RMB (A Shares)	20,628,944,429	81.80	–	20,628,944,429	81.80
	(2) Foreign shares listed domestically	–	–	–	–	–
	(3) Foreign shares listed overseas (H Shares)	4,590,901,172	18.20	–	4,590,901,172	18.20
	(4) Others	–	–	–	–	–
3.	Total shares	25,219,845,601	100.00	–	25,219,845,601	100.00

As at the end of the reporting period, the Company had a total of 227,732 shareholders, including 192,451 holders of A Shares and 35,281 holders of H Shares. Neither the holders of A Shares nor the holders of H Shares are subject to trading moratorium.

As at the end of the previous month prior to the disclosure date of the annual report (namely 28 February 2018), the Company had a total of 243,306 shareholders, including 208,861 holders of A Shares and 34,445 holders of H Shares. They are not subject to trading moratorium.

Based on the publicly available information and so far as the Company's Directors were aware, as at 31 December 2017, the Company had met the public float requirement of the Hong Kong Listing Rules.

5.2 Top ten shareholders and top ten holders of ordinary shares whose shareholdings are not subject to trading moratorium

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital (%)	Type of shares	Changes in The reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.	/	4,544,009,532	18.02	H Shares	4,883,146	–	–
2	China Merchants Steam Navigation Co., Ltd.	State-owned legal person	3,289,470,337	13.04	A Shares not subject to trading moratorium	–	–	–
3	Anbang Property & Casualty Insurance Company Ltd. – traditional products	Domestic legal person	2,704,596,216	10.72	A Shares not subject to trading moratorium	–	–	–
4	China Ocean Shipping Company Limited	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	–	–	–
5	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	1,258,542,349	4.99	A Shares not subject to trading moratorium	–	–	–
6	China Merchants Finance Investment Holdings Co. Ltd.	State-owned legal person	1,147,377,415	4.55	A Shares not subject to trading moratorium	–	–	–
7	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	944,013,171	3.74	A Shares not subject to trading moratorium	–	–	–
8	China Securities Finance Corporation Limited	Domestic legal person	861,063,980	3.41	A Shares not subject to trading moratorium	41,752,802	–	–
9	COSCO Shipping (Guangzhou) Co., Ltd.	State-owned legal person	696,450,214	2.76	A Shares not subject to trading moratorium	–	–	–
10	China Communications Construction Company Limited	State-owned legal person	450,164,945	1.78	A Shares not subject to trading moratorium	–	–	–

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

(2) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Co., Ltd., Shenzhen Yan Qing Investment and Development Company Ltd., China Merchants Finance Investment Holdings Co. Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are subsidiaries of China Merchants Group Ltd. China Ocean Shipping Company Limited and COSCO Shipping (Guangzhou) Co., Ltd. are controlled by China COSCO Shipping Corporation Limited. The Company is not aware of any affiliated relationships among other shareholders.

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

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

As at 31 December 2017, as far as the Company is aware, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO (In the report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of total issued ordinary shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	6,697,550,412	1		
		Long	Others	55,196,540	1		
				6,752,746,952		32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Steam Navigation Co., Ltd.	A	Long	Beneficial owner	3,289,470,337			
		Long	Interest of controlled corporation	3,408,080,075	1		
		Long	Others	55,196,540	1		
				6,752,746,952		32.73	26.78
	H	Long	Interest of controlled corporation	806,680,423	1	17.57	3.20
China Merchants Finance Investment Holdings Co., Ltd.	A	Long	Beneficial owner	1,147,377,415			
		Long	Interest of controlled corporation	2,202,555,520	1		
		Long	Others	55,196,540	1		
				3,405,129,475		16.51	13.50
Best Winner Investment Limited	A	Long	Beneficial owner	58,147,140	1	0.28	0.23
	H	Long	Beneficial owner	328,776,923	1	7.16	1.30
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	1,258,542,349	1		
		Long	Interest of controlled corporation	944,013,171	1		
				2,202,555,520		10.68	8.73
Anbang Property & Casualty Insurance Company Ltd. – traditional products	A	Long	Beneficial owner	2,704,596,216		13.11	10.72
China Ocean Shipping Company Limited	A	Long	Beneficial owner	1,574,729,111		7.63	6.24

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of total issued ordinary shares (%)
JPMorgan Chase & Co.	H	Long	Beneficial owner	26,905,311			
		Long	Investment manager	129,408,680			
		Long	Trustee	15,265			
		Long	Approved lending agent	76,752,887			
				233,082,143	2	5.08	0.92
		Short	Beneficial owner	1,854,603	2	0.04	0.01
Pagoda Tree Investment Company Limited (中國華馨投資有限公司)	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
Compass Investment Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
CNIC Corporation Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
Verise Holdings Company Limited	H	Long	Interest of controlled corporation	477,903,500	3	10.41	1.89
China Merchants Union (BVI) Limited	H	Long	Beneficial owner	477,903,500	3	10.41	1.89

Notes:

(1) Details of China Merchants Group Ltd. and its subsidiaries' interests in the Company are listed on section "5.4.1 Information on the Company's largest shareholder and its parent company" of this report.

(2) JPMorgan Chase & Co. was deemed to hold interests in a total of 233,082,143 H shares (long position) and 1,854,603 H shares (short position) in the Company by virtue of its control over a number of corporations which were directly or indirectly wholly-owned by JPMorgan Chase & Co..

The entire interests and short positions of JPMorgan Chase & Co. in the Company included a lending pool of 76,752,887 H shares. Besides, 6,331,520 H shares (long position) and 1,737,603 H shares (short position) were held through derivatives as follows:

1,515,520 H shares (long position) and 330,445 H shares (short position)	–through physically settled listed derivatives
1,089,650 H shares (short position)	–through cash settled listed derivatives
1,814,000 H shares (long position) and 211,008 H shares (short position)	–through physically settled unlisted derivatives
3,002,000 H shares (long position) and 106,500 H shares (short position)	–through cash settled unlisted derivatives

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

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

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

(3.3) Compass Investment Company Limited (referred to in (3)) was deemed to hold the 477,903,500 H shares in the Company which CNIC Corporation Limited was deemed to hold by virtue of holding 98.9% interest in CNIC Corporation Limited.

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

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) who has any interests or short positions in the shares and underlying shares of the Company as at 31 December 2017 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

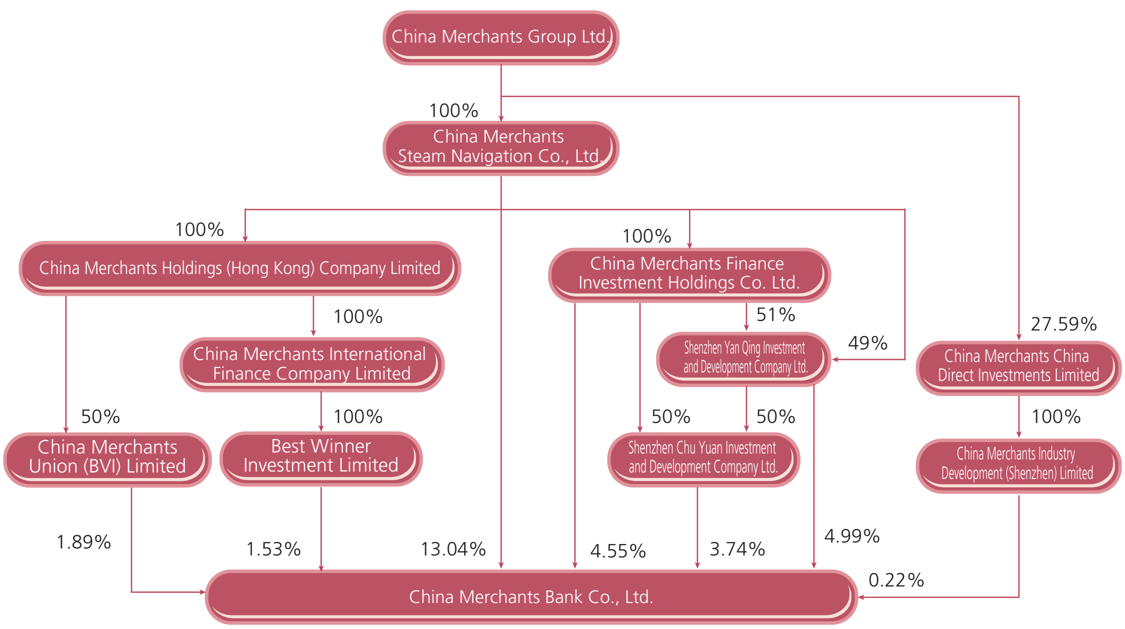
5.4 Information on substantial shareholders

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

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

2. China Merchants Group Ltd. directly holds 100% equity of China Merchants Steam Navigation Company Ltd. and is the parent company of the Company's largest shareholder, with a registered capital of RMB14.1425 billion. Its legal representative is Li Jianhong. China Merchants Group Ltd. is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was incorporated in 1872, when China was in its late Qing Dynasty and was undergoing the Westernisation Movement. It was one of the enterprises which played a significant role in promoting the modernisation of China's national industries and commerce at that time. Nowadays, it has developed into a conglomerate, with its businesses focusing on three core industries, namely transportation (harbour, highway, shipping, logistics, ocean engineering, and trade), finance (bank, securities, funds and insurance) and real estate (industrial zone development and real estate development).

   The Company did not have any controlling shareholder and de facto controller. As at the end of the reporting period, the equity relationship among the Company, its largest shareholder and the parent company of its largest shareholder is illustrated as follows:



As at 31 December 2017, China Merchants Group Ltd. indirectly held an aggregate of 29.97% of the total shares of the Company, consisting of 26.78% of A Shares and 3.20% of H Shares of the Company. It did not pledge any of its shares in the Company. (In this report, any discrepancies between the total shown and the sum of the amounts listed are due to rounding.)

On 24 February 2017, China Merchants Group Ltd. and China Merchants Steam Navigation Company Ltd. entered into the relevant agreement, pursuant to which, China Merchants Group Ltd. transferred its 90% equity interests in China Merchants Finance Investment Holdings Co., Ltd., 49% equity interests in Shenzhen Yan Qing Investment and Development Company Limited and 10.55% equity interests in China Merchants Holdings (Hong Kong) Company Limited to China Merchants Steam Navigation Company Ltd. at nil consideration. Those changes in the relevant shareholdings had been completed. For the relevant information, please refer to the relevant announcements issued by the Company on 24 February and 2 August 2017, respectively.

5.4.2 Information on other shareholders holding more than 5% shares of the Company

1. Anbang Property & Casualty Insurance Company Ltd.. As at the end of the reporting period, Anbang Property & Casualty Insurance Company Ltd. in aggregate held 11.63% shares (including its 0.91% H shares) in the Company, and it did not pledge any of its shares in the Company. Anbang Property & Casualty Insurance Company Ltd. was established on 31 December 2011, with a registered capital of RMB37.0 billion. Its legal representative is Ye Jing. The scope of its businesses includes: property and casualty insurance; liability insurance; credit and guarantee insurance; short-term health insurance and accidental injury insurance; reinsurance of the above-mentioned insurances; the insurance fund application business permitted under the PRC laws and regulations; and other businesses approved by China Insurance Regulatory Commission.

   Anbang Insurance Group Co., Ltd.. As at the end of the reporting period, Anbang Insurance Group Co., Ltd. held 97.56% equity interests in Anbang Property & Casualty Insurance Company Ltd. and was its controlling shareholder. Anbang Insurance Group Co., Ltd. was established on 15 October 2004, with a registered capital of RMB61.9 billion. The scope of its businesses includes: establishment of insurance enterprises; supervision and management of various domestic and international businesses of the companies invested and controlled by Anbang Insurance Group Co., Ltd.; the investment businesses permitted under the PRC laws and regulations; the insurance businesses permitted under the PRC laws and regulations; and other businesses approved by China Insurance Regulatory Commission. On 23 February 2018, the Company noted that "the Announcement of the China Insurance Regulatory Commission regarding the implementation of the Takeover of Anbang Insurance Group Co., Ltd." was uploaded to the official website of the China Insurance Regulatory Commission. At the same time, the Company received a written notice from Anbang Insurance Group Co., Ltd., which stated: "Currently, Anbang Insurance Group Co., Ltd. and its subordinate bodies are in stable operation, with sufficient cash reserves, there are no recent plans to reduce the shareholding in your company".

2. China Ocean Shipping Company Limited. As at the end of the reporting period, China Ocean Shipping Company Limited held 6.24% shares in the Company. China Ocean Shipping (Group) Company (the predecessor of China Ocean Shipping Company Limited) was established on 22 October 1983, with a registered capital of RMB16.191 billion. Its legal representative is Xu Lirong. The scope of its businesses includes: international shipping; ancillary business in international maritime transportation; acceptance of space booking, voyage charter and time charter from cargo owners at home and abroad; leasing, construction, trading and maintenance of vessels and containers and manufacture of related facilities; ship escrowing business; provision of ship materials, spare parts and communications services relating to shipping business at home and abroad; management of enterprises engaging in vessel and cargo agency business and seafarer assignment business.

   China COSCO Shipping Corporation Limited. As at the end of the reporting period, China COSCO Shipping Corporation Limited held 100% equity interests in China Ocean Shipping Company Limited and is its controlling shareholder. Its ultimate de facto controller is State-owned Assets Supervision and Administration Commission of the State Council. China COSCO Shipping Corporation Limited was established in February 2016, with a registered capital of RMB11.0 billion. Its legal representative is Xu Lirong. As at the end of the reporting period, China COSCO Shipping Corporation Limited in aggregate held 9.97% shares in the Company through China Ocean Shipping Company Limited, COSCO Shipping Financial Holdings Co., Limited, COSCO Shipping (Guangzhou) Co., Ltd., Guangzhou Haining Maritime Technology Consulting Co., Ltd. (廣州海寧海務技術咨詢有限公司), COSCO Shipping (Shanghai) Co., Ltd. (中遠海運（上海）有限公司) and Shenzhen Sanding Oil Transport Trading Co., Ltd. (深圳市三鼎油運貿易有限公司), all being its subsidiaries. It did not pledge any of its shares in the Company.

5.4.3 Other substantial shareholders under the regulatory calibre

1. China Communications Construction Company Limited. As at the end of the reporting period, China Communications Construction Company Limited held 1.78% of the shares of the Company and was a shareholder which has appointed supervisors in the Company. China Communications Construction Company Limited was established on 8 October 2006 with a registered capital of RMB16.174 billion, and its legal representative is Liu Qitao. As at the end of the reporting period, China Communications Construction Group (Limited) held 63.84% of the equity of China Communications Construction Company Limited, and therefore is the controlling shareholder of China Communications Construction Company Limited, its ultimate de facto controller is the State-owned Assets Supervision and Administration Commission of the State Council. China Communications Construction Group (Limited) was established on 8 December 2005 with a registered capital of RMB5.855 billion, and its legal representative is Liu Qitao. As at the end of the reporting period, through its subsidiaries, namely China Communications Construction Company Limited, CCCC Shanghai Dredging Co., Ltd., CCCC Guangzhou Dredging Co., Ltd., CCCC Fourth Harbor Engineering Co. Ltd., Zhen Hua (Shenzhen) Engineering Co., Ltd. and CCCC Third Harbor Consultants Co. Ltd., China Communications Construction Group (Limited) held in aggregate 2.27% of the shares of the Company, and there was no pledge of the shares of the Company.

2. Hebei Port Group Co., Ltd.. As at the end of the reporting period, Hebei Port Group Co., Ltd. held 1.20% of the shares of the Company and was a shareholder which has appointed supervisors in Company. There was no pledge of the shares of the Company. Hebei Port Group Co., Ltd. was established on 28 August 2002 with a registered capital of RMB8 billion. The legal representative is Cao Ziyu and the de facto controller is the State-owned Assets Supervision and Administration Commission of the People's Government of Hebei Province.

3. SAIC Motor Corporation Limited. As at the end of the reporting period, SAIC Motor Corporation Limited held 1.71% of the shares of the Company and was a shareholder which has appointed supervisors in Company. There was no pledge of the shares of the Company. SAIC Motor Corporation Limited has a registered capital of RMB11.683 billion, and its legal representative is Chen Hong. As at the end of the reporting period, Shanghai Automotive Industry Corporation (Group) held 71.24% of the shares of SAIC Motor Corporation Limited, and therefore is the controlling shareholder of SAIC Motor Corporation Limited, and its de facto controller is the State-owned Assets Supervision and Administration Commission of Shanghai City. Shanghai Automotive Industry Corporation (Group) was established on 1 March 1996 with a registered capital of RMB21.599 billion, and its legal representative is Chen Hong.

5.5 Issuance and listing of security

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

For details of the issuance and listing of preference shares of the Company, please refer to section 5.6 of this report.

During the reporting period, the Company did not have corporate bonds listed on the stock exchange by way of public issuance.

For the issuance of other bonds of the Company and its subsidiaries, please refer to Note 37 "Debt Securities Issued" of the financial report.

The Company had not issued internal staff shares.

5.6 Preference shares

5.6.1 Issuance and listing of preference shares in the past three years

In order to ensure the sustainable and steady development of the Company's business and further enhance the capability of risk prevention and overall competitiveness, the Board of Directors of the Company passed a resolution on 24 March 2017, which resolved to issue preference shares in both domestic and overseas markets. The proceeds from the issuance, less issuance expenses, were used to replenish additional tier 1 capital. The above resolution was considered and passed at the 2016 annual general meeting of the Company, the first class meeting of the shareholders of A shares for 2017 and the first class meeting of the shareholders of H shares in 2017 on 26 May 2017.

Pursuant to the approvals by Yin Jian Fu [2017] No. 249 issued by the CBRC and Zheng Jian Xu Ke [2017] No. 1838 issued by the CSRC, the Company issued non-cumulative perpetual offshore preference shares on 25 October 2017 (for details, please refer to the table below). The offshore preference shares of the issuance were listed on the Hong Kong Stock Exchange on 26 October 2017. The offshore preference shares have a par value of RMB100 each and were issued fully paid in U.S. dollars so that the total issuance price of the offshore preference shares was USD20 each. The offshore preference shares have no maturity date and were issued in registered form. The qualified placees shall not been less than six, but subject to a maximum limit of 200 qualified placees. The offshore preference shares were offered to professional institutional investors only. The gross proceeds from the offering of the offshore preference shares was USD1 billion, after deduction of the expenses relating to the issuance, would be fully used to replenish the Company's Additional Tier 1 Capital.

Type of offshore preference shares	Stock code	Dividend yield	Total amount issued	Proceeds raised per share	Number of shares issued
Preference Shares in U.S. dollar	04614	4.40%	USD1,000,000,000	USD20	50,000,000 Shares

Pursuant to the approvals by Yin Jian Fu [2017] No. 249 issued by the CBRC and Zheng Jian Xu Ke [2017] No. 2198 issued by the CSRC, the Company issued 275 million domestic preference shares by way of private placement on 22 December 2017. The domestic preference shares have a par value of RMB100 each, and were issued at nominal value. The dividend rate of the domestic preference shares shall be adjustable by stage and shall be adjusted every five years from the end of the payment date. For the dividend rate adjustment period, the dividends shall be paid at the same agreed dividend rate. The dividend rate at the time of the issuance was 4.81%, which was determined by the Board of Directors through book-building process in accordance with the market conditions at the time of the issuance, the actual situation of the Company, investors' needs and other factors, as authorised by the shareholders' general meeting (which authorisation can be further delegated). Pursuant to the approval by Shang Zheng Han [2018] No. 42 issued by Shanghai Stock Exchange, the domestic preference shares were listed and traded on the integrated business platform of Shanghai Stock Exchange on 12 January 2018, with the stock abbreviation of "招銀優1" (Zhao Yin You 1) and stock code of 360028, and the number of shares listed were 275 million. The total proceeds raised from the issuance of the domestic preference shares amounted to RMB27,500,000,000. After deduction of the expenses relating to the issuance, the net proceeds raised from the issuance of the domestic preference shares amounted to RMB27,467,750,000, would be fully used to replenish the Company's Additional Tier 1 Capital.

For further information, please refer to the relevant announcement(s) published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company, respectively.

5.6.2 Number of shareholders of preference shares and their shareholdings

As at the end of the reporting period, the Company had a total of 13 shareholders of preference shares (or nominees), including 1 shareholder of offshore preference shares (or nominees), and 12 shareholders of domestic preference shares. As at the end of the previous month (namely 28 February 2018) preceding the date for disclosure of the annual report, the Company had a total of 13 shareholders of preference shares (or nominees), including 1 shareholder of offshore preference shares (or nominees), and 12 shareholders of domestic preference shares.

As at the end of the reporting period, the shareholdings of top ten shareholders of offshore preference shares (or nominees) were as follows:

Serial No.	Name of shareholder	Type of shareholder	Type of shares	Changes in the reporting period (share)	Shares held at the end of the period (share)	Percentage of shareholding (%)	Number of shares subject to trading moratorium	Shares pledged or frozen
1	The Bank of New York Depository (Nominees) Limited	Overseas legal person	Offshore preference shares	50,000,000	50,000,000	100	–	Unknown

Note: (1) The shareholdings of shareholders of preference shares are calculated based on the information listed in the register of shareholders of preference shares maintained by the Company.

(2) As the issuance is an offshore non-public issuance, the information listed in the register of shareholders of preference shares is the information of the nominee of the placees.

(3) The Company is not aware of any affiliated relationship or action in concert among the above shareholders of preference shares and the top ten shareholders of ordinary shares.

(4) "Percentage of shareholding" represents the percentage of the number of offshore preference shares held by shareholders of preference shares to the total number of offshore preference shares.

As at the end of the reporting period, the shareholdings of top ten shareholders of domestic preference shares (or nominees) were as follows:

Serial No.	Name of shareholder	Type of shareholder	Type of shares	Changes in the reporting period (share)	Shares held at the end of the period (share)	Percentage of shareholding (%)	Number of shares subject to trading moratorium	Shares pledged or frozen
1	China Mobile Communications Corporation	State-owned legal person	Domestic preference shares	106,000,000	106,000,000	38.55	–	Nil
2	CCB Trust Co., Ltd.	State-owned legal person	Domestic preference shares	30,000,000	30,000,000	10.91	–	Nil
3	BOC Asset Management Co., Ltd. (中銀資產管理有限公司)	Others	Domestic preference shares	25,000,000	25,000,000	9.09	–	Nil
4	China National Tobacco (Henan Province) Company	State-owned legal person	Domestic preference shares	20,000,000	20,000,000	7.27	–	Nil
	Ping An Property & Casualty Insurance Company of China, Ltd.	Others	Domestic preference shares	20,000,000	20,000,000	7.27	–	Nil
6	China Everbright Bank Company Limited	Others	Domestic preference shares	19,000,000	19,000,000	6.91	–	Nil
7	China National Tobacco (Sichuan Province) Company	State-owned legal person	Domestic preference shares	15,000,000	15,000,000	5.45	–	Nil
	China National Tobacco (Anhui Province) Company	State-owned legal person	Domestic preference shares	15,000,000	15,000,000	5.45	–	Nil
9	China Construction Bank Corporation, Guangdong Branch	State-owned legal person	Domestic preference shares	10,000,000	10,000,000	3.64	–	Nil
10	China National Tobacco (Liaoning Province) Company	State-owned legal person	Domestic preference shares	5,000,000	5,000,000	1.82	–	Nil
	Changjiang Pension Insurance Co., Ltd.	State-owned legal person	Domestic preference shares	5,000,000	5,000,000	1.82	–	Nil
	China Resources SZITIC Trust Co., Ltd.	State-owned legal person	Domestic preference shares	5,000,000	5,000,000	1.82	–	Nil

Notes: (1) The shareholdings of preference shareholders are calculated based on the information listed in the register of shareholders of preference shares maintained by the Company.

(2) China National Tobacco (Henan Province) Company, China National Tobacco (Sichuan Province) Company, China National Tobacco (Anhui Province) Company and China National Tobacco (Liaoning Province) Company are wholly-owned subsidiaries of China National Tobacco Corporation. Save for the above, the Company is not aware of any affiliated relationship or party acting in concert among the above shareholders of preference shares or between the above shareholders of preference shares and the top ten shareholders of ordinary shares.

(3) "Percentage of shareholding" represents the percentage of the number of domestic preference shares held by shareholders of preference shares to the total number of domestic preference shares.

5.6.3 Dividend distribution of preference shares

As of the end of the reporting period, the offshore and domestic preference shares of the Company in issue had not yet reached the dividend payment date(s), no distribution of dividend for preference shares was made by the Company.

5.6.4 Repurchase and conversion of preference shares

During the reporting period, there had been no repurchase or conversion of preference shares.

5.6.5 Restored voting rights of preference shares

During the reporting period, the voting rights of the domestic and offshore preference shares of the Company in issue had not been restored.

5.6.6 Accounting policies for preference shares and the reason of adoption

The Company made accounting judgments over its preference shares then issued and outstanding in accordance with the requirements of the relevant accounting principles, including the "International Accounting Standard 39 – Financial Instruments: Recognition and Measurement" and the "International Accounting Standard 32 – Financial Instruments: Presentation" promulgated by International Accounting Standards Board. As the preference shares issued and outstanding of the Company carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as other equity instruments.

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

6.1 Directors, Supervisors and senior management

Name	Gender	Date of Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether having received remunerations from the related parties of the Company during the reporting period
Li Jianhong	Male	1956.5	Chairman Non-Executive Director	2014.8-2019.6 2014.7-2019.6	–	–	–	Yes
Tian Huiyu	Male	1965.12	Executive Director President and Chief Executive Officer	2013.8-2019.6 2013.9-2019.6	–	–	522.06	No
Fu Gangfeng	Male	1966.12	Non-Executive Director	2010.8-2019.6	–	–	–	Yes
Sun Yueying	Female	1958.6	Non-Executive Director	2001.4-2019.6	–	–	–	Yes
Li Hao	Male	1959.3	Executive Director, First Executive Vice President and Chief Financial Officer	2007.6-2019.6 (note 1)	–	–	474.60	No
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2007.6-2019.6	–	–	–	Yes
Su Min	Female	1968.2	Non-Executive Director	2014.9-2019.6	–	–	–	Yes
Zhang Jian	Male	1964.10	Non-Executive Director	2016.11-2019.6	–	–	–	Yes
Wang Daxiong	Male	1960.12	Non-Executive Director	2016.11-2019.6	–	–	–	Yes
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1-2019.6	–	–	50.00	No
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2011.7-(note 2)	–	–	50.00	No
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2012.7-2018.7 (note 3)	–	–	50.00	No
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2011.11-(note 2)	–	–	50.00	No
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2015.1-2019.6	–	–	50.00	No
Wong See Hong	Male	1953.6	Independent Non-Executive Director	2017.2-2019.6	–	–	41.67	No
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8-2019.6	–	–	474.60	No
Fu Junyuan	Male	1961.5	Shareholder Supervisor	2015.9-2019.6	–	–	–	Yes
Wen Jianguo	Male	1962.10	Shareholder Supervisor	2016.6-2019.6	–	–	–	Yes
Wu Heng	Male	1976.8	Shareholder Supervisor	2016.6-2019.6	–	–	–	Yes
Jin Qingjun	Male	1957.8	External Supervisor	2014.10-2019.6	65,800	65,800	40.00	No
Ding Huiping	Male	1956.6	External Supervisor	2016.6-2019.6	–	–	40.00	No
Han Zirong	Male	1963.7	External Supervisor	2016.6-2019.6	–	–	40.00	No
Xu Lizhong	Male	1964.3	Employee Supervisor	2016.6-2019.6	–	–	333.67	No
Huang Dan	Female	1966.6	Employee Supervisor	2015.3-2019.6	–	–	243.95	No
Tang Zhihong	Male	1960.3	Executive Vice President	2006.5-2019.6	–	–	379.68	No

Name	Gender	Date of Birth (Y/M)	Title	Term of office	Shareholding at the beginning of the period (share)	Shareholding at the end of the period (share)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether having received remunerations from the related parties of the Company during the reporting period
Zhu Qi	Male	1960.7	Executive Vice President	2008.12-2019.6	–	–	–	No
Liu Jianjun	Male	1965.8	Executive Vice President	2013.12-2019.6	–	–	379.68	No
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.7-present	–	–	379.68	No
Wang Liang	Male	1965.12	Executive Vice President Secretary of Board of Directors	2015.1-2019.6 2016.11-2019.6	–	–	379.68	No
Zhao Ju	Male	1964.11	Executive Vice President	2015.2-2019.6	–	–	–	No
Wang Jianzhong	Male	1962.10	Member of the CPC Committee	2017.4-present	–	–	255.59	No
Shi Shunhua	Male	1962.12	Member of the CPC Committee	2017.4-present	–	–	233.43	No
Lian Bolin	Male	1958.5	Executive Assistant President	2012.6-present	–	–	332.22	No
Guo Xuemeng	Female	1966.9	Former Independent Non-Executive Director	2012.7-2017.2	–	–	–	No
Li Xiaopeng	Male	1959.5	Former Vice Chairman Former Non-Executive Director	2015.11-2018.1 2014.11-2018.1	–	–	–	Yes
Ding Wei	Male	1957.5	Former Executive Vice President	2008.5-2017.5	–	–	158.20	No

Notes:

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

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

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

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

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

(6) The aggregate pre-tax remunerations of the full-time Executive Directors, Chairman of the Board of Supervisors and senior management of the Company are still being verified, and the information about the pre-tax remuneration of the other staff will be disclosed separately upon confirmation of payment.

(7) None of the Directors, Supervisors and senior management listed in the above table holds share options or has been granted restricted shares of the Company.

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

6.2 Appointment and resignation of Directors, Supervisors and senior management

In February 2017, the qualification of Mr. Wong See Hong for serving as a Director was approved by the CBRC, and Ms. Guo Xuemeng ceased to be the Independent Non-Executive Director of the Company.

In January 2018, Mr. Li Xiaopeng resigned as the Vice Chairman and Non-Executive Director of the Company due to other business commitment.

In May 2017, Mr. Ding Wei resigned as the Executive Vice President of the Company due to other business commitment.

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

Mr. Wang Jianzhong and Mr. Shi Shunhua were appointed as members of the CPC Committee of the Company in April 2017.

6.3 Changes of information of Directors and Supervisors

1. Mr. Fu Gangfeng, Non-Executive Director of the Company, serves as a director and general manager of China Merchants Group Ltd. and ceased to concurrently serve as the chief financial officer of China Merchants Group Ltd..

2. Ms. Sun Yueying, Non-Executive Director of the Company, concurrently serves as the Chairman of China Shipping Finance Co., Ltd..

3. Mr. Hong Xiaoyuan, Non-Executive Director of the Company, serves as a director of China Merchants Holdings (Hong Kong) Company Limited and concurrently serves as the Chairman of China Merchants Innovative Investment Management Co., Ltd. and a director of China Merchants RenHe Life Insurance Company Limited.

4. Mr. Zhang Jian, Non-Executive Director of the Company, ceased to concurrently serve as the Chairman of Shenzhen China Merchants Ping An Asset Management Co., Ltd. (深圳市招商平安資產管理有限責任公司) and concurrently serves as a director of Shenzhen China Merchants Ping An Asset Management Co., Ltd., a director of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司) and the Chairman of China Merchants Financial Technology Co., Ltd. (招商局金融科技有限公司).

5. Mr. Wang Daxiong, Non-Executive Director of the Company, concurrently serves as the Chairman of COSCO SHIPPING Capital Insurance Co., Ltd. and the vice Chairman of New China COSCO Financial Holdings Limited (新華遠海金融控股有限公司).

6. Mr. Leung Kam Chung, Antony, Independent Non-Executive Director of the Company and the Chairman of charitable organizations, Heifer – Hong Kong, ceased to serve as the Chairman of Harvard Business School Association of Hong Kong.

7. Mr. Wong Kwai Lam, Independent Non-Executive Director of the Company, ceased to be a member of the Strategic Investment Society of The Chinese University of Hong Kong and concurrently serves as the Chairman of Opera Hong Kong.

8. Mr. Pan Chengwei, Independent Non-Executive Director of the Company, ceased to serve as an independent director of Shenzhen Nanshan Power Co., Ltd..

9. Mr. Zhao Jun, Independent Non-Executive Director of the Company, concurrently serves as the independent non-executive director of Sichuan Xunyou Network Technology Co., Ltd. (四川迅遊網絡科技股份有限公司).

10. Mr. Wong See Hong, Independent Non-Executive Director of the Company, concurrently serves as an independent director of Tahoe Life Insurance Company Limited.

11. Mr. Jin Qingjun, External Supervisor of the Company, concurrently serves as an independent director of CSG Holding Co., Ltd., an independent non-executive director of Zhong Fa Zhan Holdings Limited and an independent director of Shenzhen Asiantime International Construction Co., Ltd..

12. Mr. Han Zirong, External Supervisor of the Company, concurrently serves as the external supervisor of Bank of Chengdu Corporation Limited and ceased to serve as the independent director of that company.

13. Mr. Xu Lizhong, an Employee Supervisor of the Company, serves as the Secretary of the CPC Committee of the Dalian Branch of the Company, and ceased to serve as the General Manager of the Inspection and Security Department at the Head Office of the Company.

6.4 Current positions held by Directors and Supervisors in the shareholders' companies

Name	Name of Company	Title	Term of office
Li Jianhong	China Merchants Group Ltd.	Chairman	From July 2014 up to now
Fu Gangfeng	China Merchants Group Ltd.	Director and General Manager	From February 2018 up to now
Sun Yueying	China COSCO Shipping Corporation Limited	Chief Accountant	From January 2016 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Assistant General Manager	From September 2011 up to now
Su Min	China Merchants Finance Holdings Co., Limited	General Manager	From September 2015 up to now
Zhang Jian	China Merchants Group Ltd.	General Manager of Finance Department	From September 2015 up to now
Wang Daxiong	COSCO Shipping Financial Holdings Co., Limited	Chairman	From May 2016 up to now
Fu Junyuan	China Communications Construction Co., Ltd.	Executive Director & Chief Financial Officer	From September 2006 up to now
Wen Jianguo	Hebei Port Group Co.,Ltd.	Director & Chief Accountant	From July 2009 up to now
Wu Heng	SAIC Motor Corporation Limited	Deputy General Manager of Finance Department	From May 2015 up to now

6.5 Biography of Directors, Supervisors and senior management and information of their concurrent posts

Directors

Mr. Li Jianhong is the Chairman and Non-Executive Director of the Company. Mr. Li obtained a master's degree in Business Administration from East London University, England and a master's degree in Economy and Management from Jilin University. He is a senior economist and the Chairman of China Merchants Group Ltd. and concurrently serves as the Chairman of China Merchants RenHe Life Insurance Co., Ltd.. He was the Vice President of China Ocean Shipping (Group) Company, and the Director and President of China Merchants Group Ltd.. He was also the Chairman of the Board of Directors of China Merchants Holdings (International) Co., Ltd. (a company listed on Hong Kong Stock Exchange), the Chairman of China International Marine Containers (Group) Limited (a company listed on Hong Kong Stock Exchange and Shenzhen Stock Exchange), the Chairman of China Merchants Capital Investments Co., Ltd., the Chairman of China Merchants Energy Shipping Company Limited (a company listed on Shanghai Stock Exchange) and the Chairman of China Merchants Huajian Highway Investment Company Limited.

Mr. Tian Huiyu is an Executive Director, President and Chief Executive Officer of the Company. He obtained a bachelor's degree in Infrastructure Finance and Credit from Shanghai University of Finance and Economics and a master's degree in Public Administration from Columbia University. He is a senior economist. He is concurrently the Chairman of WLB, the Chairman of CMBIC, the Chairman of CMB International Capital Corporation Limited, the Vice Chairman of Merchants Union Consumer Finance Company Limited and the Chairman of Board of Supervisors of National Association of Financial Market Institutional Investors. He was the Vice President of Trust Investment Branch of China Cinda Asset Management Co., Ltd. from July 1998 to July 2003, and the Vice President of Bank of Shanghai from July 2003 to December 2006. He consecutively served as the Deputy General Manager of Shanghai Branch, the head of Shenzhen Branch, and the General Manager of Shenzhen Branch of China Construction Bank ("CCB", a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) from December 2006 to March 2011. He acted as the Business Executive of retail banking at the Head Office and the head and General Manager of Beijing Branch of CCB from March 2011 to May 2013. He joined the Company in May 2013 and has served as the President of the Company since September 2013.

Mr. Fu Gangfeng is a Non-Executive Director of the Company. Mr. Fu obtained a bachelor's degree in Finance and a master's degree in Management Engineering from Xi'an Highway College and is a senior accountant. He is the Director and General Manager of China Merchants Group Ltd., and the Vice Chairman of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司) (a company listed on Shenzhen Stock Exchange). He was the Deputy Director of the Shekou ZhongHua Certified Public Accountants, the Director of the Chief Accountant Office and Deputy Chief Accountant of China Merchants Shekou Industrial Zone Co., Ltd., the Chief Financial Officer of China Merchants Shekou Holdings Co., Ltd., the Chief Financial Officer of China Merchants Shekou Industrial Zone Co., Ltd., the General Manager of the Finance Division of China Merchants Group Ltd. and the Chief Financial Officer and Chief Accountant of China Merchants Group Ltd..

Ms. Sun Yueying is a Non-Executive Director of the Company. Ms. Sun holds a bachelor's degree and is a senior accountant. She is the Chief Accountant of China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) and concurrently serves as the Chairman of COSCO SHIPPING Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange, formerly known as China Shipping Container Lines Company Limited), the Chairman of COSCO Finance Co., Ltd. and the Chairman of China Shipping Finance Co., Ltd..

Mr. Li Hao is an Executive Director, First Executive Vice President and Chief Financial Officer of the Company. Mr. Li obtained a master's degree in Business Administration from the University of Southern California and is a senior accountant. He concurrently serves as the Chairman of CMFM and the Vice Chairman of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd. (深圳市招銀前海金融資產交易中心有限公司), the Vice Chairman of Wing Lung Bank, a Director of Merchants Union Consumer Finance Company Limited, the Vice President of Payment & Clearing Association of China, Director and Vice President of Asset Management Association of China, and a Director of National Internet Finance Association of China. He joined the Company as the Executive Assistant President of the Head Office in May 1997. He was the General Manager of the Shanghai Branch of the Company from April 2000 to March 2002. He was an Executive Vice President of the Company since December 2001, the Chief Financial Officer since March 2007, an Executive Director of the Company since June 2007, and the First Executive Vice President of the Company since May 2013.

Mr. Hong Xiaoyuan is a Non-Executive Director of the Company. Mr. Hong obtained a master's degree in Economics from Peking University and a master's degree in Science from Australian National University. He is a senior economist. He serves as the Director of China Merchants Holdings (Hong Kong) Company Limited and the Assistant General Manager of China Merchants Group Ltd. and the Chairman and CEO of China Merchants Finance Holdings Company Limited. He concurrently serves as the Chairman of China Merchants Finance Investment Holdings Co., Ltd., China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange), Shenzhen CMB Qianhai Financial Assets Exchange Centre Co., Ltd. (深圳市招銀前海金融資產交易中心有限公司), China Merchants United Development Company Limited, China Merchants Innovative Investment Management Co., Ltd., the Vice Chairman of China Merchants Capital Investments Co., Ltd. and the Director of China Merchants RenHe Life Insurance Co,. Ltd..

Ms. Su Min is a Non-Executive Director of the Company. Ms. Su obtained a bachelor's degree in Finance from Shanghai University of Finance and Economics and a master's degree in Business Administration from China University of Technology. She is a senior accountant, certified public accountant and certified public valuer. Ms. Su is concurrently the General Manager of China Merchants Finance Holdings Company Limited. She serves as a Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), a Director of China Merchants Innovation Investment Management Co., Ltd. (招商局創新投資管理有限責任公司) and a Supervisor of China Merchants Capital Investments Co., Ltd.. She successively served as the Deputy Director of Property Office of the State-owned Assets Supervision and Administration Commission of Anhui Province, the Chief Accountant of Anhui Energy Group Co., Ltd., a Director of Huishang Bank, the Chairman and General Manager of Anhui Hefei Wanneng Microfinance Company, the Deputy General Manager and Chief Accountant of Anhui Energy Group Co., Ltd., the Chief Accountant and a member of the Communist Party of China Committee of China Shipping (Group) Company, the Chairman of CS Finance Company, the Chairman of COSCO Financial Leasing Co., Ltd. (中海融資租賃公司), a Director of Bank of Kunlun, and a Director of China Shipping Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and China Shipping Container Lines Company Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange).

Mr. Zhang Jian is a Non-Executive Director of the Company. Mr. Zhang obtained a bachelor's degree in Economics and Management from the Department of Economics of Nanjing University and a master's degree in Econometrics from the Business School of Nanjing University, and is a senior economist. He is the General Manager of Finance Department of China Merchants Group Co., Ltd. and Deputy General Manager of China Merchants Finance Holdings Co., Ltd.. He concurrently serves as a Director of Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd., a Director of Shi Jin Shi Credit Service Co., Ltd. (試金石信用服務有限公司), a Director of China Merchants Insurance Holdings Co., Ltd. (招商局保險控股有限公司), a Director of China Merchants Ping An Asset Management Co., Ltd., a Director of China Merchants RenHe Life Insurance Company Limited, a Director of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司) and the Chairman of China Merchants Financial Technology Co., Ltd. (招商局金融科技有限公司). He had held various positions including General Manager of the Suzhou Branch of China Merchants Bank, Deputy General Manager of the Corporate Banking Department at the Head Office of China Merchants Bank (in charge), Business Director and General Manager of the Corporate Banking Department at the Head Office of China Merchants Bank, Business Director and General Manager of the Credit Risk Management Department at the Head Office of China Merchants Bank and Business Director and General Manager of the Comprehensive Risk Management Office at the Head Office of China Merchants Bank.

Mr. Wang Daxiong is a Non-Executive Director of the Company. Mr. Wang obtained a bachelor's degree in Shipping Finance and Accounting from the Department of Marine Transportation Management of Shanghai Maritime University and a master's degree in Business Administration for Senior Management from Shanghai University of Finance and Economics. He is a senior accountant. He is the Chairman of COSCO Shipping Financial Holdings Co., Ltd and the Chief Executive Officer of COSCO SHIPPING Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He concurrently serves as a Director of China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), the Chairman of COSCO SHIPPING Capital Insurance Co., Ltd. (中遠海運財產保險自保有限公司) and a Vice Chairman of New China COSCO Financial Holdings Limited (新華遠海金融控股有限公司). He served as a Director of China Merchants Bank from March 1998 to March 2014. He also served as the Vice President and Chief Accountant of China Shipping (Group) Company, Deputy General Manager of China Shipping (Group) Company and the Chairman of China Shipping (HK) Holdings Limited.

Mr. Leung Kam Chung, Antony is an Independent Non-Executive Director of the Company. Mr. Leung obtained a bachelor's degree in Social Sciences from the University of Hong Kong. He also attended Harvard Business School's Program for Management Development and Advanced Management Program. He is concurrently the Chairman and Chief Executive Officer of Nan Fung Group, the co-founder and Chairman of New Frontier, a member of the Board of Directors of Athenex Inc., and the Chairman of charitable organizations, Heifer – Hong Kong and "Food Angel". Mr. Leung served as a member of Blackstone's Executive Committee, the Senior Managing Director and the Chairman of Greater China Region. He also acted as the Chairman of Asia for JP Morgan Chase and worked for Citi in various positions, including the country corporate officer for Hong Kong SAR and China, the Regional Treasurer for North Asia, head of Investment Banking for North Asia, South West Asia and head of Private Banking for Asia. Past board membership of Mr. Leung included an Independent Director of Industrial and Commercial Bank of China Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), China Mobile Hong Kong Company Limited and American International Assurance, the Vice Chairman of China National Bluestar Group, a member of the international advisory board of China Development Bank and European Advisory Group. In terms of government services, Mr. Leung had served as financial secretary, non-official member of the Executive Council of Hong Kong SAR, Chairman of the Education Commission, Chairman of the University Grants Committee, member of the Exchange Fund Advisory Committee, member of the Preparatory Committee for the Hong Kong Special Administrative Region and Election Committee and Hong Kong Affairs Advisors to the Chinese Government, a member of the Board of Hong Kong Airport Authority and a Director of the Hong Kong Futures Exchange.

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

Mr. Pan Chengwei is an Independent Non-Executive Director of the Company. Mr. Pan obtained an associate bachelor's degree from Cadre Institute under the Ministry of Transport and is an accountant. He is an Independent Non-Executive Director of China International Marine Containers (Group) Co., Ltd. (a company listed on Hong Kong Stock Exchange and the Shenzhen Stock Exchange). He was the General Manager of the Finance Department of China Ocean Shipping (Group) Company, the General Manager of the Finance Department of COSCO (Hong Kong) Group Limited, the General Manager of COSCO (H.K.) Property Development Limited, the General Manager of COSCO (H.K.) Industry & Trade Holdings Ltd., the Chief Representative of Shenzhen Representative Office of COSCO HK Group, the General Manager of COSCO (Cayman) Fortune Holding Co., Ltd. and its Hong Kong branch, and the Compliance Manager of the Fuel Oil Futures Department of China Ocean Shipping (Group) Company.

Ms. Pan Yingli is an Independent Non-Executive Director of the Company. Ms. Pan obtained a bachelor's degree in Economics from East China Normal University, a master's degree in Economics from Shanghai University of Finance and Economics and a doctorate degree in World Economics from East China Normal University. She is concurrently a Director of Research Center for Modern Finance in Shanghai Jiao Tong University, a professor and a tutor of doctorate candidates in Finance at Antai College of Economics and Management of Shanghai Jiao Tong University, the Vice President of Shanghai World Economy Association and the chief expert of Pan Yingli Studio of the Decision-making Consultation Research Base of Shanghai Municipal Government (上海市政府決策諮詢研究基地潘英麗工作室). She was an associate professor, a professor and a tutor of doctorate candidates in East China Normal University, and became a faculty member at Shanghai Jiao Tong University in November 2005. From 1998 to 2007, she served as an invited expert of Shanghai Municipal Government on decision-making consultation.

Mr. Zhao Jun is an Independent Non-Executive Director of the Company. Mr. Zhao obtained a bachelor's degree from the Department of Shipbuilding Engineering of Harbin Engineering University, a master's degree from the Department of Ocean Engineering of Shanghai Jiao Tong University, a doctorate degree in Civil Engineering from the University of Houston and a master's degree in Financial Management from the School of Management of Yale University. Mr. Zhao is currently the Chairman of Beijing Fellow Partners Investment Management Ltd.. He concurrently serves as the Independent Non-Executive Director of Bright Scholar Education Holdings Limited (a company listed on New York Stock Exchange) and the Independent Non-Executive Director of Sichuan Xunyou Network Technology Co., Ltd. (四川迅遊網絡科技股份有限公司), a company listed on the Shenzhen Stock Exchange. He was a Managing Partner of DT Capital Partners, the Managing Director and the Chief Representative in China of ChinaVest, Ltd..

Mr. Wong See Hong is an Independent Non-Executive Director of the Company. Mr. Wong obtained a bachelor's degree in Business Administration from the National University of Singapore, a master's degree in Investment Management from Hong Kong University of Science and Technology, and a doctoral degree in Transformational Leadership (DTL) from Bethel Bible Seminary. He is an Independent Director of The Frasers Hospitality Assets Management Pte., Ltd. (新加坡輝盛國際資產管理有限公司), EC World Asset Management Private Limited and an Independent Director of Tahoe Life Insurance Company Limited. He previously served as the Deputy Chief Executive of BOCHK, head of ABN AMRO Bank for the Southeast Asia region, managing director and president for the Southeast Asia region, and the head of the Financial Market Department in Asia (亞洲區金融市場部主管), a Director of Bank of China Group Insurance Company Limited, the Chairman of the Board of BOC Group Trustee Company Limited, the Chairman of BOCI-Prudential MPF (中銀保誠強積金), the Chairman of BOCHK Asset Management Limited, a member of the Board of Directors of the Civil Servants Institute of Prime Minister's Office Singapore (新加坡總理辦公室公務員學院), Client Consulting Commission of Thomson Reuters (Thomson Reuters客戶諮詢委員會) and Financial Management Commission of the Hong Kong Administration Society (香港管理學會財務管理委員會).

Supervisors

Mr. Liu Yuan is the Chairman of the Board of Supervisors of the Company. Mr. Liu obtained a bachelor's degree in Global Economy from Renmin University of China and is an economist. He has been the Chairman of the Board of Supervisors of the Company since August 2014. He is concurrently a member of the council of Shenzhen Finance Institute, The Chinese University of Hong Kong (Shenzhen), a visiting professor of Renmin University of China, the Chairman of the professional committee under the supervisory committee of Chinese Association of Listed Companies and a member of Shenzhen Finance Development Decision-making Consultation Committee (深圳市金融發展決策諮詢委員會). He served as the deputy section officer and section officer of the management office of foreign affairs bureau (外事局管理處) of the People's Bank of China from August 1984 to October 1991. He was the secretary (division deputy level) and deputy chief of the monetary office of foreign exchange affairs division (外匯業務司金管處) of State Administration of Foreign Exchange from October 1991 to February 1994. He held the positions of secretary of the General Office (辦公廳正處級秘書), researcher of the regulatory office I of the banking division (銀行司監管一處調研員), head of the regulatory office III of the banking regulatory division II (銀行監管二司監管三處處長) and head of the regulatory office VII of the banking regulatory division II (銀行監管二司監管七處處長) of the People's Bank of China from February 1994 to July 2003. He served as the deputy head of the Banking Supervision Department II (銀行監管二部副主任) of the CBRC, director of CBRC Shanxi Bureau, director of CBRC Shenzhen Bureau, head of the Banking-related Case Audit Bureau (銀行業案件稽查局局長) of the CBRC and head of the Banking-related Consumer Protection Bureau (銀行業消費者權益保護局) of the CBRC from July 2003 to July 2014.

Mr. Fu Junyuan is a Shareholder Supervisor of the Company, a PhD of Management and a senior accountant at the professor level. Mr. Fu has been a Shareholder Supervisor of the Company since September 2015. He is an Executive Director and the Chief Financial Officer of China Communications Construction Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and concurrently the Chairman of CCCC Finance Company Limited, the Vice Chairman of Jiang Tai Insurance Broker Co., Ltd. and a Director of China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司). He served as the Chief Accountant of China Harbour Engineering (Group) Ltd. and China Communications Construction Company Ltd. from October 1996 to September 2006. He served as a Non-Executive Director of the Company from March 2000 to August 2015.

Mr. Wen Jianguo is a Shareholder Supervisor, a university graduate and an accountant. Mr. Wen has been a Shareholder Supervisor of the Company since June 2016. He is a Director and Chief Accountant of Hebei Port Group Co., Ltd. (河北港口集團有限公司) and concurrently a Director and Vice Chairman of Hebei Port Group Finance Company Limited and a Director of Caida Securities and Bank of Hebei Co., Ltd.. He once served as a deputy head and head of Finance Department of Qinhuangdao Port Bureau (秦皇島港務局) as well as head of Finance Department of Qinhuangdao Port Group Co., Ltd.. He served as a Director and Chief Accountant of Qinhuangdao Port Group Co., Ltd. from July 2007 to July 2009. He served as a Shareholder Supervisor of the Company from June 2010 to May 2013.

Mr. Wu Heng is a Shareholder Supervisor of the Company and a postgraduate from the Department of Accounting of Shanghai University of Finance and Economics. Mr. Wu obtained a master's degree in Management and is a senior accountant. He has been a Shareholder Supervisor of the Company since June 2016. He is a Deputy General Manager of Finance Affairs Department of SAIC Motor Corporation Limited, and General Manager of of SAIC Motor Financial Holding Management Co., Ltd.. He consecutively served as a Deputy Manager and Manager of Planning and Finance Department as well as a manager of Fixed Income Department of Shanghai Automotive Group Finance Company, Ltd. from March 2000 to March 2005. He consecutively served as a Division Head, Assistant to Executive Controller and concurrently a Manager of Accounting Division of Finance Department of SAIC Motor Corporation Limited from March 2005 to April 2009, the Chief Financial Officer of Huayu Automotive Systems Co., Ltd. (a company listed on Shanghai Stock Exchange) from April 2009 to May 2015, during which he has concurrently been a Director and General Manager of Huayu Automotive Systems (Shanghai) Co., Ltd. (華域汽車系統（上海）有限公司).

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

Mr. Ding Huiping is an External Supervisor of the Company. He obtained a doctorate degree in Enterprise Economics from Universitet I Linkoeping in Sweden. He is currently a professor and a tutor of doctorate candidates in the School of Economics and Management and the head of PRC Enterprise Competitiveness Research Center of Beijing Jiaotong University, and Honorary Professor in the Business School of Duquesne University. He is concurrently an Independent Director of Huadian Power International Corporation Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), Metro Land Corporation Ltd. (a company listed on Shanghai Stock Exchange), Shandong International Trust Co., Ltd.. He has been an Independent Director of Shandong Luneng Taishan Cable Company Limited (a company listed on Shenzhen Stock Exchange), Road & Bridge International Co., Ltd. (a company listed on Shanghai Stock Exchange), China International Marine Containers (Group) Ltd. (a company listed on Hong Kong Stock Exchange and Shenzhen Stock Exchange) and China Merchants Securities Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He served as an Independent Director of the Company from May 2003 to May 2006.

Mr. Han Zirong is an External Supervisor of the Company, an economist and certified public accountant. Mr. Han obtained a bachelor's degree from Jilin Finance and Trade College. He has been an External Supervisor of the Company since June 2016. He has been a partner of Shu Lun Pan Hong Kong CPA Limited, and has concurrently been an External Supervisor of Bank of Chengdu Corporation Limited (a company listed on Shanghai Stock Exchange) and an Independent Director of Bank of Hainan. He served as a credit administrator of Industrial and Commercial Bank of China, Changchun Branch from August 1985 to October 1992. From October 1992 to September 1997, he served as an assistant to director of Accounting Firm of Shenzhen Audit Bureau (深圳市審計局審計師事務所). He served as a managing partner of Shenzhen Finance Accounting Firm (深圳市融信會計師事務所) from October 1997 to October 2008. He served as a senior partner of Daxin Certified Public Accountants from October 2008 to October 2012.

Mr. Xu Lizhong is an Employee Supervisor of the Company. Mr. Xu obtained a bachelor's degree in Economic Management from Northeast Normal University after completing on-the-job courses and is a senior economist. He has been an Employee Supervisor of the Company since June 2016. He is concurrently the Secretary of the CPC Committee of the Dalian Branch of the Company. He started his career in a branch of the People's Bank of China in Huadian City, Jilin Province in May 1983. He successively served as the office secretary, deputy director, deputy director of branch credit division, director of housing credit division of Jilin Branch of Industrial and Commercial Bank of China ("ICBC") from May 1989 to August 2002. He was an assistant to the general manager of Jilin Branch and the General Manager of Yanbian Branch of ICBC from August 2002 to December 2004. He served as the Vice General Manager of Jilin Branch of ICBC from December 2004 to July 2006 and the Vice General Manager of Heilongjiang Branch of ICBC from July 2006 to April 2008. He served as the General Manager of Changchun Branch of the Company from April 2008 to November 2015. He served as the General Manager of the Inspection and Security Department at the Head Office of the Company from November 2015 to January 2018.

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

Senior management

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

Mr. Liu Yuan, please refer to Mr. Liu Yuan's biography under the paragraph headed "Supervisors" above.

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

Mr. Tang Zhihong is an Executive Vice President of the Company. Mr. Tang obtained a bachelor's degree in Chinese Language and Literature from Jilin University and is a senior economist. He joined the Company in May 1995. He successively served as the Deputy General Manager of Shenyang Branch, the deputy head of the Shenzhen Administration Unit, the general manager of Lanzhou Branch, the general manager of Shanghai Branch, the head of the Shenzhen Administration Unit, and an executive assistant president of the Head Office. He has been an Executive Vice President of the Company since May 2006. He concurrently serves as a Director of Asian Financial Cooperation Association.

Mr. Zhu Qi is an Executive Vice President of the Company. Mr. Zhu obtained a master's degree in Statistics from Zhongnan University of Finance and Economics and is a senior economist. He joined the Company in August 2008, and has been an Executive Vice President of the Company since December 2008. He is concurrently an Executive Director and Chief Executive Officer of Wing Lung Bank, a director of CMB International Capital Corporation Limited and a Director of The Hong Kong Chinese Enterprises Charitable Foundation Limited.

Mr. Liu Jianjun is an Executive Vice President of the Company. Mr. Liu obtained a master's degree in National Economics from Dongbei University of Finance and Economics and is a senior economist. He has successively served as the Deputy General Manager of Jinan Branch of the Company, the General Manager of the Retail Banking Department under the Head Office, a Senior Vice President of the Retail Banking Department under the Head Office and the business executive since September 2000. He has been an Executive Vice President of the Company since December 2013. He is concurrently the chairman of CIGNA & CMB Life Insurance and a Director of China UnionPay Co., Ltd. and a member of Visa Asia Pacific Senior Advisory Council.

Mr. Xiong Liangjun is the Secretary of the Party Discipline Committee of the Company. Mr. Xiong obtained a master's degree in Money and Banking from Zhongnan University of Finance and Economics and an EMBA degree from the Cheung Kong Graduate School of Business. He is a senior economist. He successively served as the Deputy Director-General of the CBRC Shenzhen Bureau, the Director-General of CBRC Guangxi Bureau and CBRC Shenzhen Bureau from September 2003 to July 2014. He has been the Secretary of the Party Discipline Committee of the Company since July 2014.

Mr. Wang Liang is an Executive Vice President and the Secretary of the Board of Directors of the Company. Mr. Wang obtained a master's degree in Money and Banking from Renmin University of China and is a senior economist. He successively served as the Assistant General Manager, the Deputy General Manager and the General Manager of Beijing Branch of the Company. He served as the Executive Assistant President of the Company and concurrently, the General Manager of Beijing Branch since June 2012. He ceased to serve as the general manager of Beijing Branch in November 2013, and has served as an Executive Vice President of the Company since January 2015. He has concurrently served as the Secretary of the Board of Directors of the Company since November 2016.

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

Mr. Wang Jianzhong, a Member of the CPC Committee of the Company, he obtained a bachelor's degree in Accounting from Dongbei University of Finance and Economics and is an assistant economist. Mr. Wang joined the Company in November 1991 and successively served as the General Manager of Changsha Branch, the Deputy General Manager of Corporate Banking Department, the General Manager of Foshan Branch, the General Manager of Wuhan Branch, the Business Director of General Office of Corporate Finance Group and the General Manager of Beijing Branch of the Company since October 2002. He serves as a Member of the CPC Committee of the Company and has concurrently served as the General Manager of Beijing Branch of the Company since April 2017.

Mr. Shi Shunhua, a Member of the CPC Committee of the Company, he obtained an MBA degree from China Europe International Business School and is an economist. Mr. Shi joined the Company in November 1996 and successively served as the Assistant General Manager and the Deputy General Manager of Shanghai Branch of the Company, the General Manager of Suzhou Branch, the General Manager of Shanghai Branch and the Business Director of General Office of Corporate Finance Group since May 2003. He has served as a Member of the CPC Committee of the Company since April 2017. He is concurrently the Business Director of General Office of Corporate Finance Group of the Company.

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

Joint company secretaries

Mr. Wang Liang, please refer to his biography in "Senior Management" above.

Mrs. Seng Sze Ka Mee, Natalia has served as the Company's Joint Company Secretary since August 2006. Mrs. Natalia Seng is the Chief Executive Officer of Tricor Group in China and Hong Kong and an Executive Director of Tricor Services Limited (hereinafter referred to as "Tricor"), and also a business leader of Tricor's Corporate Services and China Consultancy Services. She was one of the founders of the company secretarial team of Ernst & Young in Hong Kong prior to joining Tricor in 2002. Mrs. Seng's professional area covers business advisory, corporate governance, fiduciary services and regulatory compliance for private and listed companies. Mrs. Seng is a Chartered Secretary, a former President (2007-2009) and a retired council member (1996-2012) of The Hong Kong Institute of Chartered Secretaries (HKICS), and a retired council member (2010-2014) of The Institute of Chartered Secretaries and Administrators in the United Kingdom. Mrs. Seng has been appointed by the HKSAR Government as a member of the Standing Committee on Company Law Reform for a period of two years (February 2018-January 2020). She represented HKICS as a member of an Advisory Group on the Rewrite of the Companies Ordinance. Mrs. Seng is also a fellow of The Taxation Institute of Hong Kong and an appointed member of the Inland Revenue Department Users' Committee. Mrs. Seng holds a Master's degree in Business Administration (Executive) from City University of Hong Kong.

6.6 Explanation on the office location of Chairman of the Company

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

6.7 Evaluation and incentive system for Directors, Supervisors and senior management

The Company offers remuneration to Independent Directors and external Supervisors according to the "Resolution in respect of Adjustment to Remuneration of Independent Directors" and the "Resolution in respect of Adjustment to Remuneration of External Supervisors" considered and passed at the 2016 First Extraordinary General Meeting; offers remuneration to Executive Directors and other senior executives according to the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released in 2017); and offers remuneration to Employee Supervisors in accordance with the policies on remuneration of employees of the Company. Non-Executive Directors and Supervisors nominated by shareholders of the Company do not receive any remuneration from the Company.

According to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors (Provisional)", the Board of Supervisors of the Company evaluates the annual duty performance of the directors through monitoring their duty performance in the ordinary course, reviewing and evaluating their annual duty performance record (including but not limited to, attendance of meetings, participation of researches, provision of recommendations and the term of office in the Company), the "Annual Duty Performance Self-Evaluation Questionnaire of Directors" completed by each director and work summaries, and then reports the same to the general meeting and regulatory authorities. The Board of Directors evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released in 2017) and the "Assessment Standards of the H-Share Appreciation Rights Incentive Scheme for the Senior Management".

6.8 Progress on H Share Appreciation Rights Scheme

On 4 November 2016, as approved at the 2016 First Extraordinary General Meeting of the Company, the Board of Directors might grant the 2017 H Share Appreciation Rights in accordance with the requirements of the H Share Appreciation Rights Scheme within the effective period of the scheme. The Company had implemented the relevant grant during the reporting period. For details of the abovementioned matters, please refer to the relevant announcements dated 18 August and 25 August 2017 published by the Company on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

6.9 Information about employees

As at 31 December 2017, the Company had 72,530 employees (including dispatched employees). The classification of our employees by profession is: 28,975 employees in retail finance, 15,633 employees in corporate finance, 14,357 employees in operation management, 7,563 employees in general management, 3,715 employees in risk management, 1,698 employees in research and development, and 589 employees in administrative and logistical support. The classification of our employees by educational background is: 12,752 employees with master's degree and above, 51,028 employees with bachelor's degree, 7,732 employees with junior college degree, and 1,018 employees with technical secondary school degrees or below.

Core technical team and key technical personnel

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

Staff remuneration policy

The Company's remuneration policy is in line with its operation targets, cultural concepts and values. It aims to refine and improve its incentive and restrictive mechanisms, realise its corporate goals, enhance its organizational performance and minimise its operating risk. The remuneration policy adheres to the principles of remuneration management featuring "strategic orientation, performance enhancement, risk control, internal fairness and market adaptation" and reflects the remuneration concept of "fixing remuneration based on positions and workload".

Staff training program

The Company has formulated multi-level staff training programs covering all its staff. The contents of training focus mainly on knowledge of its business and products, professional ethics and security, management skills and leadership. During the reporting period, the Company fully completed all its training programs.

6.10 Branches and representative offices

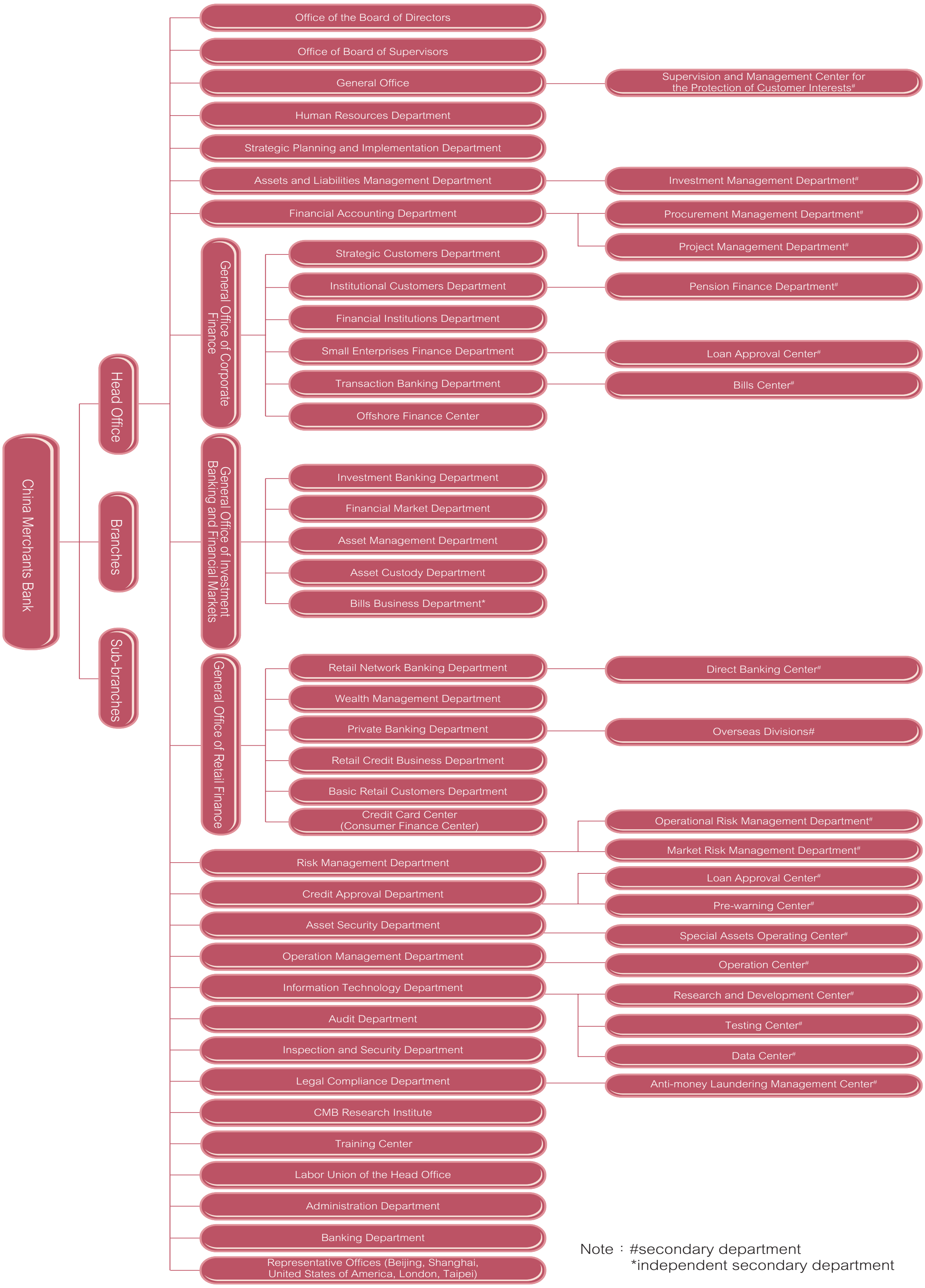
In 2017, the Company continued to push forward expansion of its branch network. In China, Langfang Branch (second-level) got approval to start business; Tongzhou Branch (second-level) was in the process of upgrading to a first-level branch. Outside Mainland China, Sydney Branch got approval to start business.

The following table sets forth the branches and representative offices as at 31 December 2017:

Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,414	2,492,601
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	6,302	478,828
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong New District, Shanghai	200120	100	4,747	218,865
	Shanghai Pilot Free Trade Zone Branch	Waigaoqiao Building, 6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	45	12,062
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	79	2,840	150,297
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	77	2,556	141,502
	Ningbo Branch	342 Min'an East Road, Ningbo	315042	30	1,161	59,074
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	36	1,280	97,435
	Wuxi Branch	9 Xueqian Road, Wuxi	214001	16	730	31,279
	Wenzhou Branch	1-3/F, Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	12	499	30,044
	Nantong Branch	111 Gongnong Road, Nantong	226007	14	516	21,817
Bohai Rim	Beijing Representative Office	26/F, Building 3, No.1 Yuetan South Street, Xicheng District, Beijing	100045	1	7	–
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	109	4,781	284,849
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	48	1,571	41,390
	Tianjin Branch	Yujia Building, 255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300201	43	1,715	76,142
	Jinan Branch	7 Gongqingtuan Road, Jinan	250012	57	1,767	64,270
	Yantai Branch	133 Yingchun Street, Laishan District, Yantai	264003	18	514	13,234
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	16	419	9,136
	Tangshan Branch	45 Beixin Road West, Lubei District, Tangshan	063000	5	213	3,420
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510623	77	2,733	112,129
	Shenzhen Branch	2016 Shennan Boulevard, Futian District, Shenzhen	518001	109	5,054	342,847
	Fuzhou Branch	316 Jiangbingzhong Boulevard Road, Fuzhou	350014	34	1,142	53,937
	Xiamen Branch	No. 6 Complex Building, Hongtai Industrial Park, 309 Hudong Road, Siming District, Xiamen	361012	36	933	51,395
	Quanzhou Branch	Huangxing Building, No. 301, the middle section of Fengze Street, Quanzhou	362000	18	468	17,290
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523000	32	871	34,698
	Foshan Branch	12 Denghu Road East, Guicheng Street, Nanhai District, Foshan	528200	33	945	34,244

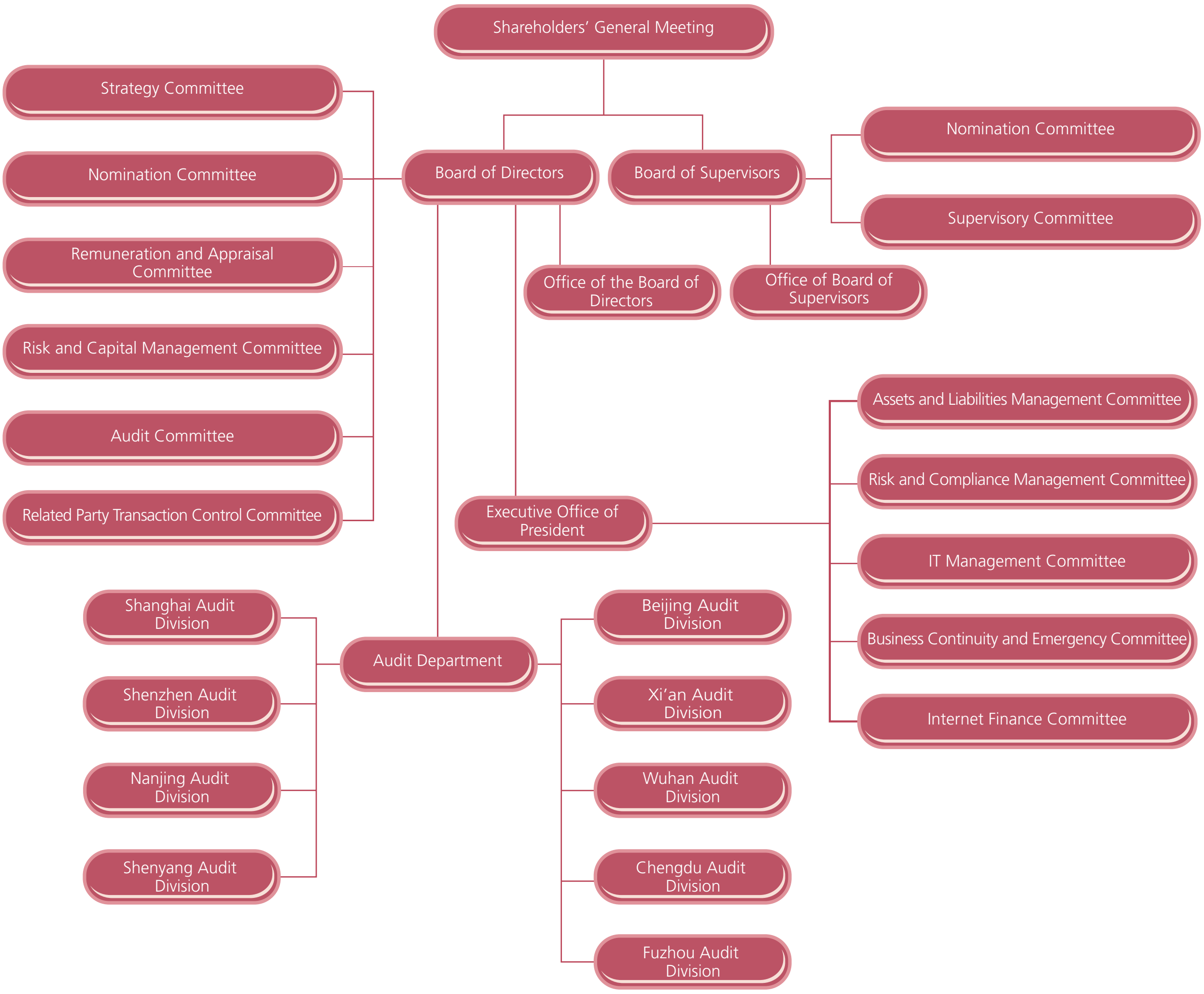
Regions	Name of branches	Business address	Postal code	No. of branches	No. of Staff	Volume of assets (RMB million)
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	58	1,671	45,734
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	39	1,314	40,029
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150010	38	1,050	41,626
	Changchun Branch	9999 Renmin Avenue, Nanguan District, Changchun	130022	29	695	24,159
Central China	Wuhan Branch	518 Jianshe Avenue, Wuhan	430022	91	2,544	114,410
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330008	53	1,465	70,238
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	54	1,369	40,001
	Hefei Branch	169 Funan Road, Hefei	230006	40	1,215	43,852
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	40	1,235	48,546
	Taiyuan Branch	8 Xinjian Road South, Taiyuan	030001	31	866	31,459
	Haikou Branch	Complex Building C, Haian Yihao, 1 Shimao Road North, Haikou	570125	10	275	9,828
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	52	1,551	50,828
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	28	875	26,268
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710075	63	1,866	56,374
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	47	1,593	64,914
	Urumchi Branch	2 Huanghe Road, Urumchi	830006	16	744	24,216
	Kunming Branch	1 Chongren Street Wuhua District, Kunming	650051	45	1,251	54,553
	Hohhot Branch	9 Chilechuan Avenue, Saihan District, Huhhot	010098	20	618	21,602
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	21	487	18,479
	Guiyang Branch	284 Zhonghua Road North, Yunyan District,Guiyang	550001	19	449	19,093
	Yinchuan Branch	138 Beijingzhong Road, Jinfeng District, Yinchuan	750001	14	381	13,040
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	10	254	11,180
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	227	123,961
	USA Representative Office	509 Madison Avenue, Suite 306, New York, U.S.A	10022	1	1	–
	New York Branch	535 Madison Avenue 18th Floor, New York, U.S.A	10022	1	125	59,963
	Singapore Branch	1 Raffles Place, Tower 2, #32-61, Singapore	048616	1	49	9,465
	London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	1	2
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	–	1	2	2
	Luxembourg Branch	20 Boulevard Royal, L-2449 Luxembourg	L-2180	1	38	3,236
	London Branch	18/F, 20 Fenchurch Street, London, UK	–	1	33	3,097
	Sydney	L39, GPT, 1 Farrer Place, Sydney NSW	–	1	25	435
Other assignments	–	–	–	–	38	–
Total	–	–	–	1,830	72,530	5,943,375

6.11 The Company's organisational structure:



Corporate Governance

7.1 Corporate governance structure:



7.2 Overview of corporate governance

In 2017, the PRC economy has rebounded, maintaining its steady growth. However, numerous compelling factors in domestic and foreign economics remained distinct. The growth rate of international direct investment slowed down; global debts accumulated continuously; the tendency of protectionism increased; the supply-side reform and financial deleveraging still have a long way to go. Facing complicated economic situations at home and abroad and various severe challenges in banking operation, the Board of Directors, the Board of Supervisors and the special committees of the Company fully capitalised on their professional advantages to perform their duties diligently. They conducted forward-looking researches and made scientific decisions on strategic guidance, risk management, internal control and compliance, internal audit, management of related party transactions, incentives and constraints mechanism, as well as management of corporate governance, effectively protected shareholders' interests as a whole, and continuously pushed forward the Company's strategic transformation towards "Light-operation Bank" and "One Body with Two Wings". Particulars of their achievements are set out as follows:

During the year, the Company convened a total of 51 important meetings at which 252 proposals were reviewed and 52 reports were delivered. Among the 51 meetings there were 1 shareholders' general meeting (24 proposals were reviewed), 12 meetings of the Board of Directors (80 proposals were reviewed and 17 reports were delivered), 8 meetings of the Board of Supervisors (39 proposals were reviewed and 8 reports were delivered), 25 meetings of the special committees of the Board of Directors (104 proposals were reviewed and 23 reports were delivered), 3 meetings of the special committees of the Board of Supervisors (5 proposals were reviewed), 1 meeting of Non-Executive Directors (1 report was delivered) and 1 meeting of Independent Non-Executive Directors (3 reports were delivered). 3 special researches were organised by the Board of Directors, and 4 by the Board of Supervisors.

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

During the reporting period, the Company received recognitions from the capital markets and regulatory authorities in respect of corporate governance, information disclosure as well as investor relations management, and won a number of awards, mainly including the "Excellent Management Award of Hong Kong Listed Companies" awarded by Chamber of Hong Kong Listed Companies, "Best Board of Directors Award" in the selection of the "Gold Round Table Award" by the Board of Directors, the "Silver Award for Annual Reports Worldwide" selected by League of American Communications Professionals LLC, all the seven awards of "Asia Regional Banking Segments" selected by Institutional Investor of U.S., and the "Best New Media Operation Award of Chinese Listed Companies" hosted by China Securities Journal.

7.3 Information about general meetings

During the reporting period, the Company convened 1 shareholders' general meeting. On 26 May 2017, the Company held the 2016 Annual General Meeting, the First Class Meeting of the Shareholders of A Shares for 2017 and the First Class Meeting of the Shareholders of H Shares for 2017.

For details of the resolutions, please refer to the documents on shareholders' general meetings published on the websites of Shanghai Stock Exchange and the Company as well as the circulars regarding the shareholders' general meetings published on the websites of Hong Kong Stock Exchange and the Company. The notification, gathering, convening and voting procedures of the meetings complied with relevant requirements of the Company Law of the People's Republic of China, the Articles of Association of the Company and the Hong Kong Listing Rules. Relevant resolutions were published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company and on China Securities Journal, Shanghai Securities News and Securities Times. For more information on the attendance of Directors at shareholders' general meetings, please refer to the section headed "Attendance of Directors at Relevant Meetings" of this report.

7.4 Board of Directors

The Board of Directors is an independent policy-making body of the Company, responsible for executing resolutions passed by the general meetings; formulating of the Company's major principles and policies, including development strategy, risk preference, internal control and internal auditing systems, remuneration regulations; deciding on the Company's operating plans, investment and financing proposals and the establishment of internal management organs; preparing annual financial budgets, final accounts and profit appropriation plans; and appointing and evaluating members of senior management. The Company adopts a system in which the President assumes full responsibility under the leadership of the Board of Directors. The senior management team has discretionary powers in terms of operation and makes daily decisions on operation management within the scope of authorisation by the Board of Directors, and the Board of Directors would not intervene in any specific matters in the Company's daily operation and management.

The Board of Directors of the Company facilitates scientific and reasonable decision-making through the establishment of a diversified directorship structure, and continues to improve the decision-making and operational efficiency through promoting the effective operation of special committees. The Board of Directors focuses on key issues, directions, and strategies, and continues to strengthen the development philosophy to seek balance, health and sustainability. The Board of Directors ensures the Company to achieve dynamic and balanced development in quality, efficiency and scale through effective management of its strategy, risks, capital, remuneration, internal control and connected transactions, etc., thus providing a solid basis for the Company to enhance its operation and management capabilities.

7.4.1 Composition of the Board of Directors

At present, the Board of Directors of the Company had fifteen members, including seven Non-Executive Directors, two Executive Directors, and six Independent Non-Executive Directors. All seven Non-Executive Directors come from large state-owned enterprises where they hold key positions such as the Chairman of the Board of Directors, General Manager or Deputy General Manager and Chief Financial Officer. They have extensive experience in management, finance and accounting fields. Both Executive Directors have been engaged in financial management for a long time with extensive professional experience. Among the six Independent Non-Executive Directors, three are renowned experts in accounting and finance, and the others are financial experts and investment bankers with international vision, and they all have extensive knowledge of the development of domestic and overseas banking industry. The three Independent Non-Executive Directors from Hong Kong are proficient in international accounting standards and the requirements of Hong Kong capital market. As at the end of the reporting period, the Board of Directors of the Company has three female Directors who, together with other Directors of the Company, offer professional opinions to the Company in their respective fields. Such diversified composition of the Board of Directors of the Company has brought about a wide spectrum of vision and highly professional experience, and also has maintained strong independence which enables the Board of Directors to make independent judgments and scientific decisions effectively when studying and considering important issues.

The Company values the diversity of the members of the Board of Directors, and has had in place policies requiring that the Nomination Committee of the Company shall review the structure, number of Directors and composition (including their skills, knowledge and experience) of the Board of Directors regularly and put forward proposals in respect of any intended changes to the Board of Directors in line with the strategies of the Company.

The list of Directors of the Company is set out in Chapter VI of this report. To comply with the Hong Kong Listing Rules, the Independent Non-Executive Directors have been clearly identified in all corporate communications of the Company which disclose their names.

7.4.2 Appointment, re-election and removal of Directors

In accordance with the Articles of Association of the Company, the Directors of the Company shall be elected or replaced by shareholders at general meetings, and the term of office for a Director shall be three years commencing from the date on which the approval from the banking regulatory authority of the State Council is obtained. A Director is eligible for re-election upon the expiry of his/her current term of office. The Director's term of office shall not be terminated without any justification at a general meeting before expiry of his/her term.

A Director may be removed by an ordinary resolution at a general meeting before the expiry of his/her term of office in accordance with relevant laws and administrative regulations (however, any claim made in accordance with any contract will not be affected).

The term of office for Independent Non-Executive Directors of the Company shall be the same as that for other Directors of the Company. The term of office for an Independent Non-Executive Director of the Company shall comply with the relevant laws and requirements of the governing authority.

The procedures for appointment, re-election and removal of Directors of the Company are set out in the Articles of Association of the Company. The Nomination Committee of the Company carefully considers the qualifications and experience of every candidate for Director and recommends suitable candidates to the Board of Directors. Upon passing the candidate nomination proposal, the Board of Directors proposes election of related candidates at a general meeting and proposes the relevant resolution at a general meeting for consideration and approval.

7.4.3 Responsibilities of Directors

During the reporting period, all Directors of the Company cautiously, earnestly and diligently exercised their rights as a Director granted by the Company and by domestic and overseas regulatory authorities, devoted sufficient time and attention to the business of the Company, ensured that the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. All Directors of the Company were aware of their joint and individual responsibilities towards shareholders. During the year, the average attendance rate of Directors at meetings of the Board of Directors and the special committees under the Board of Directors was 98.96%, of which the attendance rate at meetings of special committees was 100%.

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

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

The Company also pays high attention to the continuous training of Directors, so as to ensure that they have a proper understanding of the operations and businesses of the Company, and that they are fully aware of their responsibilities under the laws and the regulatory requirements of the CBRC, the CSRC, Shanghai Stock Exchange, Hong Kong Stock Exchange and the Articles of Association of the Company. The Company has renewed the "insurance for liabilities of Directors and senior management" for all its Directors.

During the reporting period, the Company initiated annual appraisal of the performance of Directors performed by the Board of Supervisors, and annual report and cross-appraisal performed by Independent Non-Executive Directors and External Supervisors. The appraisal results have been reported to the general meeting.

7.4.4 Chairman of the Board of Directors and the President

The position of the Chairman of the Board of Directors and the President of the Company have been taken up by different persons and their duties have been clearly defined in accordance with the requirements of the Hong Kong Listing Rules. Mr. Li Jianhong serves as the Chairman of the Board of Directors and is responsible for leading the Board of Directors, ensuring that all Directors are updated regarding issues arising at board meetings, managing the operations of the Board of Directors, and ensuring that all major and relevant issues are discussed by the Board of Directors in a constructive and timely manner. To enable the Board of Directors to discuss all important and relevant matters timely, the Chairman and senior management worked together to ensure that the Directors duly receive appropriate, complete and reliable information for their consideration and review. Mr. Tian Huiyu serves as the President, responsible for the business operations and implementation of the strategic and business plans of the Company.

7.4.5 Attendance of Directors at relevant meetings

The following table sets forth the records of attendance of each Director at the meetings convened by the Board of Directors and by special committees under the Board of Directors and at the shareholders' general meetings held in 2017.

Directors	Board of Directors[1]	Strategy Committee	Nominating Committee	Remuneration and Appraisal Committee	Risk and Capital Management Committee	Audit Committee	Related Party Transaction Control Committee	Shareholders' General Meeting
		Special committees under the Board of Directors						
	Actual times of attendance/Required times of attendance[2]							
Non-Executive Directors								
Li Jianhong	12/12	5/5	0/0	/	/	/	/	1/1
Li Xiaopeng (resigned)	11/12	5/5	/	/	/	/	/	1/1
Sun Yueying	12/12	/	/	2/2	7/7	/	/	0/1
Fu Gangfeng	12/12	/	/	/	/	7/7	/	1/1
Hong Xiaoyuan	12/12	/	/	2/2	7/7	/	/	1/1
Su Min	12/12	/	/	/	7/7	/	4/4	1/1
Zhang Jian	12/12	/	/	/	7/7	/	/	1/1
Wang Daxiong	12/12	/	/	/	/	7/7	/	1/1
Executive Directors								
Tian Huiyu	12/12	5/5	0/0	/	/	/	/	1/1
Li Hao	12/12	/	/	/	7/7	/	4/4	1/1
Independent Non-Executive Directors								
Leung Kam Chung, Antony	12/12	/	/	2/2	7/7	/	/	1/1
Wong Kwai Lam	12/12	/	/	2/2	/	7/7	/	1/1
Pan Chengwei	12/12	/	0/0	/	/	7/7	4/4	1/1
Pan Yingli	12/12	/	0/0	2/2	/	/	/	1/1
Guo Xuemeng (resigned)	1/1	/	/	/	/	1/1	1/1	0/0
Zhao Jun	12/12	/	0/0	/	/	/	4/4	1/1
Wong See Hong	11/11	/	/	/	/	6/6	3/3	1/1

Notes: (1) During the reporting period, the Board of Directors held a total of 12 meetings, of which two were on-site and telephone meetings and ten were meetings convened and voted by correspondence.

(2) Actual number of attendance does not include attendance by proxy. The above Directors who did not attend the meetings in person had appointed other Directors to attend such meetings of the Board of Directors and the special committees under the Board of Directors on their behalf.

7.4.6 Securities transactions of Directors, Supervisors and relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for Directors and Supervisors of the Company in respect of their dealings in the Company's securities. Having made enquiry of all the Directors and Supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2017.

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

7.4.7 Performance of duties by Independent Non-Executive Directors

The Board of Directors of the Company currently has six Independent Non-Executive Directors, which meets the requirement that at least one third of the total Directors of the Company shall be Independent Directors. The qualification, number and proportion of Independent Non-Executive Directors are in compliance with relevant requirements of the CBRC, the CSRC, Shanghai Stock Exchange and the Hong Kong Listing Rules. All six Independent Non-Executive Directors of the Company are not involved in the circumstances set out in Rule 3.13 of Hong Kong Listing Rules which would cause doubt on their independence. The Company has received from the Independent Non-Executive Directors their respective annual confirmation of independence which was made in accordance with Rule 3.13 of Hong Kong Listing Rules. Therefore, the Company is of the opinion that all Independent Non-Executive Directors have complied with the requirement of independence set out in Hong Kong Listing Rules. The majority of the members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related Party Transaction Control Committee under the Board of Directors of the Company are Independent Non-executive directors, and all of such committees are chaired by an Independent Non-Executive Director. During the reporting period, the six Independent Non-Executive Directors maintained communication with the Company through personal attendance at the meetings, on-site visits, research and investigations and conferences. They effectively performed their roles as Independent Non-Executive Directors by diligently attending meetings held by the Board of Directors and the special committees, actively expressing their opinions and suggestions and attending to the interests and requests of small and medium shareholders. For details of the attendance of Independent Non-Executive Directors at the meetings convened by the Board of Directors and the special committees, please refer to "Attendance of Directors at relevant meetings" in this report.

During the reporting period, the Independent Non-Executive Directors expressed their independent opinions on material issues including change of Directors, remuneration of the senior management, engagement of accounting firm, profit appropriation, related party transactions and external guarantees of the Company. They made no objection to the resolutions of the Board of Directors and others.

According to the "Rules Governing Independent Directors' Work on Annual Reports" of the Company, the Independent Non-Executive Directors of the Company performed the following duties in preparing and reviewing this report:

1. The Independent Non-Executive Directors listened to reports on the performance of the Company in 2017 made by the management and Chief Financial Officer. The Independent Non-Executive Directors believed that the reports made by the management of the Company had fully and objectively reflected the operations of the Company in 2017 as well as the progress of significant matters. They recognised and were satisfied with the work performed by the management team and the results achieved in 2017.

2. The Independent Non-Executive Directors reviewed the work plan for preparing the annual report and the unaudited financial statements of the Company.

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

4. After receiving the initial audit opinions from the auditors, the Independent Non-Executive Directors discussed with the auditors in respect of major matters and prepared their written opinions.

5. The Independent Non-Executive Directors reviewed the procedures for convening board meetings in the year, the decision-making procedures for matters on the agenda and the adequacy of information for making reasonable and accurate judgment.

6. The Independent Non-Executive Directors reviewed the continuing connected transactions of the Company and made confirmations as required by the Hong Kong Listing Rules.

7.5 Special committees of the Board of Directors

There are six special committees under the Board of Directors of the Company, namely the Strategy Committee, the Nomination Committee, the Remuneration and Appraisal Committee, the Risk and Capital Management Committee, the Audit Committee and the Related Party Transaction Control Committee.

In 2017, all special committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 25 meetings to study and review 127 significant issues, including strategic implementation and assessment, profit appropriation preliminary plan, annual financial budget and final account report, remuneration and appraisal, capital management plan, comprehensive risk report, internal control, external investments, and reported their audit opinions and advices to the Board of Directors by submitting meeting minutes and holding on-site meetings, hence effectively assisting the Board of Directors to make scientific decisions.

The composition and duties of the six special committees as well as their work in 2017 are summarized as follows:

7.5.1 Strategy committee

The Strategy Committee consists of Non-Executive Directors and Executive Directors. The members of the Strategy Committee are Li Jianhong (Chairman) (a Non-Executive Director), Tian Huiyu (an Executive Director) and Fu Gangfeng (a Non-Executive Director). The Strategy Committee is mainly responsible for studying the medium-to-long term development strategies and significant investment decisions of the Company and making relevant proposals, and decide on the annual operation plan.

Main authorities and duties:

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

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

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

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

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

In 2017, the Strategy Committee focused on advancing the capital replenishment plan of the Company, reviewed the proposal of the issuance of domestic and offshore preference shares, effectively provided the support for the implementation of the strategy of the Bank, and made arrangements for the use of funds raised at home and abroad in advance and proactively promoted the smooth progression of relevant work. Based on this, the Strategy Committee also revised the Articles of Association of China Merchants Bank Co., Ltd., Rules of Procedures for Shareholders' General Meetings of China Merchants Bank Co., Ltd. and Rules of Procedures for the Board of Directors of China Merchants Bank Co., Ltd..

In 2017, the Strategy Committee studied and reviewed the "Annual Strategy Implementation and Appraisal Report of China Merchants Bank in 2016", fully analysed the implementation of the strategic objectives of "to build itself into the best commercial bank in China featuring innovation-driven development, the retail banking-prioritised business strategy and distinctive advantages", attached high importance to the development and application of Fintech across the whole bank, and increased the efforts of financial innovation. In order to strengthen the integrated operation of the Company and reinforce the capital base of its branches, the Strategy Committee also considered a series of significant investment including the establishment of direct-sale bank and the Frankfurt Branch, and the increase of investment in China Merchants Fund and Merchants Union Consumer Finance.

7.5.2 Nomination committee

The majority of the Nomination Committee are Independent Non-Executive Directors, the Chairman as well. The members of the Nomination Committee include Pan Chengwei (Chairman), Pan Yingli, Zhao Jun (all being Independent Non-Executive Directors), Li Jianhong (a Non-Executive Director) and Tian Huiyu (an Executive Director). The Nomination Committee is mainly responsible for selecting candidates for Directors and senior management of the Company, determining the standards and procedures for such selection and making relevant proposals.

Main authorities and duties:

(1) review the structure, size and composition of the Board of Directors (including their expertise, knowledge and experience) at least once a year and make recommendations on any change to the Board of Directors to implement the strategies of the Company according to the Bank's business operations, asset scale and shareholding structure of the Company;

(2) study the standards and procedures for selection of Directors and senior management, and make recommendations to the Board of Directors;

(3) conduct extensive searches for qualified candidates for Directors and senior management;

(4) conduct preliminary examination on the candidates for Directors and senior management and make recommendations to the Board of Directors; and

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

In 2017, based on the current operating conditions of the Company, its assets and liabilities scale and the shareholding structure, the Nomination Committee conducted research and discussion on the structure, number of Directors and composition of the Board of Directors from a variety of aspects such as skills, knowledge and experience, and continuously promoted the addition and replacement of candidates for Directors.

7.5.3 Remuneration and appraisal committee

The Remuneration and Appraisal Committee is composed of a majority of the Independent Non-Executive Directors with one serving as the Chairman. The members of the Remuneration and Appraisal Committee currently include Wong Kwai Lam (Chairman), Leung Kam Chung, Antony, Pan Yingli (all being Independent Non-Executive Directors) and Sun Yueying and Hong Xiaoyuan (both being Non-Executive Directors). The Remuneration and Appraisal Committee is responsible mainly for formulating the appraisal standards for Directors and senior management of the Company and conducting appraisals on them, as well as formulating and reviewing the remuneration policies and plans for Directors and senior management of the Company. It is accountable to the Board of Directors.

Main authorities and duties:

(1) study the standards for assessment of Directors and senior management members and make assessment and put forward proposals depending on the actual conditions of the Company;

(2) study and review the remuneration policies and proposals in respect of Directors and senior management of the Company, make recommendations to the Board of Directors and supervise the implementation of such proposals;

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

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

In 2017, the Remuneration and Appraisal Committee fully considered the current macroeconomic situation, the development trend of the banking industry and the development trend of the Company, reviewed and approved the Resolution on the Optimisation of the Remuneration Management Measures for China Merchants Bank, and agreed to revise the Administrative Measures on Total Staff Costs of China Merchants Bank Co., Ltd. and the Administrative Measures for the Remuneration of Senior Management of China Merchants Bank Co., Ltd., so as to further enhance the corporate governance and improve the incentive mechanism for the management and employees.

In 2017, the Remuneration and Appraisal Committee continuously implemented the H Share Appreciation Rights Scheme, the grant of the final phase had been completed successfully. The Remuneration and Appraisal Committee conducted efficiency appraisal and price adjustment to the appreciation rights granted, which ensured the steady and orderly development of the medium-to-long term incentive mechanism for the management.

7.5.4 Risk and capital management committee

The members of the Risk and Capital Management Committee are Hong Xiaoyuan (Chairman), Sun Yueying, Su Min, Zhang Jian (all being Non-Executive Directors), Li Hao (an Executive Director) and Leung Kam Chung, Antony (an Independent Non-Executive Director). The Risk and Capital Management Committee is mainly responsible for control, management, supervision and assessment of risks of the Company.

Main authorities and duties:

(1) supervise the status of risk control by the senior management of the Company in relation to credit risk, market risk, operational risk, liquidity risk, strategic risk, compliance risk, reputation risk, country risk and other risks;

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

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

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

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

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

In 2017, the Risk and Capital Management Committee adhered to the operating philosophy of dynamic and balanced development based on "quality, efficiency and size" and prudent risk management concepts. In response to the trend of changes in complex external situations and internal operation management, the Risk and Capital Management Committee focused on and prevented liquidity risk, credit risk, compliance risk and asset business risk so as to assist the Board of Directors to enhance the risk management capabilities.

The Risk and Capital Management Committee studied and considered the quarterly reports on comprehensive risk, capital management plan (2017-2019) and the implementation of risk preference indicators of non-standard wealth management assets for the year, and provided advices and recommendations for the continuous improvement in the risk system and capital allocation of the Company. Also, the Risk and Capital Management Committee reviewed the reports on management of annual business continuity, annual anti-money laundering, optimisation of asset management business and prevention of structural risks to promote healthy business development, assessment and update of market risk pressure test plans for trading accounts, self-inspection and inspection of fulfilment of risk control responsibilities by the Board of Directors, the Board of Supervisors and the senior management, so as to effectively monitor the risk management.

7.5.5 Audit committee

The majority of members and the Chairman of the Audit Committee are Independent Non-Executive Directors. The members of the Audit Committee are Wong See Hong (Chairman), Wong Kwai Lam, Pan Chengwei (all being Independent Non-Executive Directors), Fu Gangfeng and Wang Daxiong (both being Non-Executive Directors). None of them have ever served as a partner of the current auditors of the Company. The Audit Committee is mainly responsible for communication, supervision and verification of internal and external auditing issues of the Company.

Main authorities and duties:

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

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

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

(4) audit the financial information of the Company and disclosure of such information, and is responsible for the annual audit work of the Company, including issue of a conclusive report on whether the information contained in the audited financial statements is true, accurate, complete and updated, and submit the same to the Board of Directors for consideration;

(5) examine the internal control system of the Company, and put forward the advices to improve the internal control of the Company;

(6) review and supervise the mechanism for the Company's employees to whistle blow any misconduct in respect of financial reports, internal control or otherwise, so as to ensure that the Company always handles the whistle blowing issues in a fair and independent manner and takes appropriate actions;

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

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

In 2017, under the circumstance where new external policies have been introduced and financial supervision continued to tighten, the Audit Committee enhanced the communication and contact with internal auditors and external auditors. Starting from the regular report and internal and external audit, the Company timely obtained audit findings, focused on rectification and accountability, and continued to strengthen the application of audit results to enhance audit efficiency. Moreover, the Audit Committee also reviewed the Resolution on Changes of Accounting Policies, quarterly audit and work plan report and internal control and appraisal report, to monitor and verify the truthfulness, accuracy, completeness and timeliness of the information contained in the reports.

According to "Work Procedures on Annual Reports for Audit Committee of the Board of Directors" adopted by the Company, the Audit Committee of the Board of Directors of the Company performed the following duties in preparing and reviewing the annual report for 2017:

1. Before the auditors commenced their annual audit, the Audit Committee considered and discussed the audit plan of the accounting firm for 2017 and the unaudited financial statements of the Company.

2. In the course of annual audit and after the issue of a preliminary audit opinion by the accounting firm in charge of annual audit, the Audit Committee reviewed the management's report on the operations of the Company for 2017. The Audit Committee exchanged opinions on significant matters and the audit progress with the accounting firm in charge of annual audit, and reviewed the financial statements of the Company. The Audit Committee then formed written opinions for the above issues.

3. Before the convening of the annual meeting of the Board of Directors, the Audit Committee reviewed and prepared a resolution on the Company's Annual Report for 2017 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit work performed by the external auditors in respect of the Company's financial statements for the year 2017 to the Board of Directors.

7.5.6 Related party transaction control committee

The majority of members and the Chairman of Related Party Transaction Control Committee are Independent Non-Executive Directors. The members of the Related Party Transaction Control Committee are Pan Chengwei (Chairman), Zhao Jun, Wong See Hong (all being Independent Non-Executive Directors), Su Min (a Non-Executive Director) and Li Hao (an Executive Director). The Related Party Transaction Control Committee is mainly responsible for inspection, supervision and review of related party transactions of the Company.

Main authorities and duties:

(1) identify related parties of the Company pursuant to relevant laws and regulations;

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

(3) review the administrative measures on related party transactions of the Company, and to monitor the establishment and improvement of the related party transactions management system of the Company; and

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

In 2017, the Related Party Transactions Control Committee reviewed the fairness of the related party transactions, assisted the Board of Directors to ensure the reasonableness and timeliness of related party transactions, reviewed and approved resolutions such as the 2016 Annual Report of Related Party Transactions and the List of Related Parties in 2017, and reviewed the related party transactions of the Company with China COSCO Shipping Corporation Limited, Merchants Union Consumer Finance Company Limited, Gemdale Corporation, Guotai Junan Securities Co., Ltd. and CMB Financial Leasing.

7.6 Corporate governance functions

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

(1) formulating and evaluating the policies and practices on corporate governance of the Company and making certain amendments as it deems necessary, to ensure the validity of those policies and practices;

(2) evaluating and supervising the trainings and continuing professional development of Directors and senior management;

(3) evaluating and supervising the policies and practices of the Company for compliance with laws and regulatory requirements;

(4) formulating, evaluating and supervising the Code of Conduct and the Compliance Handbook applicable to Directors and employees;

(5) reviewing the compliance of the Company with the Code of Corporate Governance and the disclosures in the Report of Corporate Governance; and

(6) managing, controlling, monitoring and assessing the risks of the Company and evaluating the internal control effectiveness of the Company. The Board of Directors is of the opinion that the risk management and internal control systems of the Company is effective.

7.7 Board of Supervisors

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

7.7.1 Composition of the Board of Supervisors

The Board of Supervisors of the Company consists of 9 members, including 3 Shareholder Supervisors, 3 Employee Supervisors and 3 External Supervisors. The number of Employee Supervisors and External Supervisors each meets the regulatory requirements. The 3 Shareholder Supervisors are from large state-owned enterprises where they serve as key responsible persons and have extensive experience in business management and professional knowledge in finance and accounting; the 3 Employee Supervisors have long participated in banking operation and administration, and thus accumulated rich professional experience in finance; and the 3 External Supervisors have been engaged in legal affairs, economic management study in universities and accounting, thus accumulated extensive experience in those fields. The composition of the Board of Supervisors of the Company has adequate expertise and independence which ensures the effective supervision by the Board of Supervisors.

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

7.7.2 How the Board of Supervisors performs its supervisory duties

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

7.7.3 Duty performance of the Board of Supervisors during the reporting period

During the reporting period, the Board of Supervisors convened 8 meetings, of which 2 were on-site meetings and 6 were meetings convened and voted by correspondence. 39 proposals regarding strategic planning, business operations, financial activities, internal control, risk management, consolidated statement management, related party transaction, corporate governance, evaluation of the duty performance of the Directors and Supervisors and resignation audit on senior management members were considered, 7 of special reports involving disposal of non-performing assets, the prevention and control of crimes, consumer rights protection, assessment on strategy implementation and internal audit were reviewed at those meetings.

In 2017, the Company convened 1 shareholder general meeting and 2 on-site board meetings. Supervisors attended the general meetings and were present at all the on-site board meetings, and supervised compliance with the relevant laws and regulations, voting procedures of the general meetings and board meetings, the Directors' attendance, statements made and voting at the general meetings and board meetings, respectively.

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

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

7.7.4 Operation of the special committees under the Board of Supervisors

The Nomination Committee and the Supervisory Committee are established under the Board of Supervisors, each consisting of four Supervisors. The Chairman of each committee is served by an External Supervisor.

The Nomination Committee under the Board of Supervisors

The members of the Nomination Committee of the Tenth Session of the Board of Supervisors were Ding Huiping (Chairman), Fu Junyuan, Wen Jianguo and Huang Dan. The major duties of the Nomination Committee are as follows: to make proposals to the Board of Supervisors on the size and composition of the Board of Supervisors; to study the standards and procedures for the election of supervisors and propose the same to the Board of Supervisors; to conduct extensive searches for qualified candidates for Supervisors; to undertake preliminary examination on the qualifications of the candidates for Supervisors nominated by Shareholders and provide relevant recommendations; to supervise the procedures for election of Directors; to evaluate the duty performance of the members of the Board of Directors, Board of Supervisors and senior management, and submit reports to the Board of Supervisors; to supervise whether the remuneration management system and policies of the whole Bank and the remuneration package for its senior management members are scientific and reasonable.

In 2017, the Nomination Committee under the Board of Supervisors convened 1 meeting where proposals regarding the evaluation report on duty performance of the Board of Directors and its members in 2016, the evaluation report on duty performance of the Board of Supervisors and its members in 2016, the evaluation report on duty performance of the senior management and its members in 2016 were considered.

The Supervisory Committee under the Board of Supervisors

The members of the Supervisory Committee of the Tenth Session of the Board of Supervisors were Jin Qingjun (Chairman), Wu Heng, Han Zirong and Xu Lizhong. The major duties of the Supervisory Committee are to formulate the supervisory plans for performance of supervisory duties by the Board of Supervisors; to formulate the supervisory plans for financial activities of the Company and conduct relevant examinations; to supervise the adoption by the Board of Directors of prudent business philosophy and value standards and formulate suitable development strategies in line with the actual situations of the Bank; to conduct supervision and assessment on the important financial decisions of the Board of Directors and the senior management members and their implementations, the establishment and improvement of the internal control governance structure and the overall risk management governance structure and the division of duties of relevant parties and the performance of their duties; to formulate the specific plans for reviewing the operation decisions, internal control and risk management of the Company under the authorization of the Board of Supervisors when necessary; to formulate the plans for conducting resignation audit on Directors, President and other senior management members when necessary.

In 2017, the Supervisory Committee under the Board of Supervisors convened 2 meetings where the work plan of the Board of Supervisors in 2017 and the audit opinions on resignation of senior management members were reviewed and considered. In addition, members of the Supervisory Committee under the Board of Supervisors were also present at various on-site meetings convened by the Risk and Capital Management Committee and Audit Committee of the Board of Directors. They also reviewed the consideration and discussion on the financial decisions, risk management, internal management and capital management of the Company, supervised the duty performance of the Directors and offered comments and suggestions on some issues, and monitoring records were kept.

7.8 Trainings and investigations/surveys conducted by Directors and Supervisors during the reporting period

The Company regularly and from time to time delivered reading materials such as CMB Operation Information Monthly Magazine, CMB Monthly Magazine of Capital Market Information and relevant regulatory polices to Directors and Supervisors and ensured them to obtain necessary information to perform their duties in a timely manner.

During the reporting period, the Company's Board of Directors and Board of Supervisors organised 7 investigations/surveys. The Chairman of the Board of Supervisors conducted investigations/surveys on 17 operating entities of the Company. The performance and effectiveness of decision-making and supervision of Directors and Supervisors continued to improve. Among them, three investigations/surveys/visits by Directors were organised which involved visiting departments of the Head Office, branches and sub-branches and subsidiaries to get familiar with overall business operations of the Head Office, the branches and subsidiaries, the implementation of the transformation strategies of "Light-operation Bank" and "One Body with Two Wings", risk management, as well as problems and challenges encountered. Four investigations/surveys by Supervisors were organized, with a total of 17 branches and departments of the Head Office involved. The Board of Supervisors put forward a series of targeted opinions and proposals regarding operation management, internal control and compliance, risk prevention, the basic management of "Extending a Helping Hand (扶油瓶)" campaign, the positioning and development of second-level branches, the improvement of retail banking service, team building and caring for employees, and solved the difficulties and problems raised by our branches through the problem solving supervision system, thus significantly improving the effectiveness of solving problems. Based on the actual situation, the Board of Supervisors classified the investigation/survey results so as to effectively pass them in the forms of investigation/survey reports, work briefs and special reports to the Board of Directors, senior management, each department and branch, and reported the same to the regulatory authorities, thus fully exerting its supervisory duty.

According to the training records for 2017 kept by the Company for Directors, the status of relevant trainings is as follows:

	Provision of Information and Scope of Trainings		
Name of Directors	Corporate Governance	Policies and Regulations	Business/ Management
Non-Executive Directors			
Li Jianhong	✓	✓	✓
Li Xiaopeng (resigned)	✓	✓	✓
Fu Gangfeng	✓	✓	✓
Sun Yueying	✓	✓	✓
Hong Xiaoyuan	✓	✓	✓
Su Min	✓	✓	✓
Zhang Jian	✓	✓	✓
Wang Daxiong	✓	✓	✓
Executive Directors			
Tian Huiyu	✓	✓	✓
Li Hao	✓	✓	✓
Independent Non-Executive Directors			
Leung Kam Chung, Antony	✓	✓	✓
Wong Kwai Lam	✓	✓	✓
Pan Chengwei	✓	✓	✓
Pan Yingli	✓	✓	✓
Guo Xuemeng (resigned)	✓	✓	✓
Zhao Jun	✓	✓	✓
Wong See Hong	✓	✓	✓

7.9 Company secretary under Hong Kong Listing Rules

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

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

7.10 Misconduct reporting and monitoring

In 2017, the Company had no internal cases causing huge losses, external cases or incidents involving theft or robbery, or material safety issues.

7.11 Communication with shareholders

Investor relations

In 2017, by taking an innovative, professional, open-minded and positive attitude, and adhering to the investor-oriented objective of improving investor experience and increasing efficiency, the Company focused on market trend, emphasized fundamental analysis, maintained continuous and positive communication with various investors and analysts in the capital markets, We delivered the strategies, results of operation, business highlights and investment value of the Company to investors across the world in various forms in a timely, comprehensive and objective manner. On the backdrop of further promoting business transformation in the banking sector, the Company continued to rank ahead among its peers in the market capitalisation of its A and H shares, showing a remarkable achievement in the management of market capitalisation.

During the reporting period, the Company held one global road show of annual results, two results presentation meetings and analyst meetings and one press conference. Mr. Li Jianhong, Chairman of the Board of Directors, President Tian Huiyu paid high attention to the management of investor relations, personally attended the 2016 annual results, the 2017 interim results conferences, and marketing conferences and answered concerns from investors and analysts one by one. After the issue of 2016 annual results, President Tian Huiyu and other senior management members led its roadshow team to conduct a worldwide roadshow in Hong Kong, America, Singapore and Europe, visited a total of 108 important institutions, further conducted recommendation and communication upon the problems of business development, advantages and characteristics, future strategy and valuation improvement. A total of 231 institutional investors and analysts and 42 press reporters at home and abroad were present in the 2016 annual results representation meeting and press conference of the Company, and the number of attendees in the results representation meeting hit a new high since its listing in 2002. A total of 371 institutional investors and analysts at home and abroad, a new high in terms of the number of attendees, were present in the telephone conference for 2017 interim results representation. In addition, the Company made arrangement for reception of 112 visits made by 293 domestic and foreign institutional investors and investment banks, brokerage analysts; attended investor conferences held by 27 major domestic and foreign investment banks and brokerages, and conducted effective communication with a total of 1,221 institutional investors; answered 361 calls from investors, handled 286 online messages from investors. These measures have effectively satisfied the needs of domestic and foreign investors and analysts to communicate with the Company.

Information disclosure

The Board of Directors and management put great emphasis on information disclosure, supporting it from the aspects of system and institutional structure through setting up a series of rules and regulations, thus ensuring investors to have access to information in a timely, accurate and fair manner through optimised corporate governance and internal control.

During the reporting period, the Company issued 287 documents in domestic and foreign capital market with a total of approximately 3,070,000 words, and disclosed all the statutory information in a true, accurate, complete, compliant manner. In the meantime, in view of meeting investors' demand, the Company timely disclosed its preliminary annual and interim results so as to guide market expectation reasonably. In addition, the Company continued to disclose the hot issues concerned by its investors and the information particularly related to the banking sector in its periodic reports, further improving timeliness, proactivity and transparency in information disclosure. During the reporting period, the Company formulated the "Management Measures on Information Disclosure Suspension and Exemption of China Merchants Bank Co., Ltd." in accordance with the regulatory requirements and daily work practices, which played an active role in safeguarding the legal rights and interests of the Company and investors in compliance with the obligation of information disclosure. At the same time, the Company established a mechanism for disclosing information contacts and improved the scope of submission of major and sensitive information and quantitative criteria to upgrade the accuracy and timeliness of submission of major and sensitive information, thus to further perfect the system of information disclosure management. In addition, the Company continued to enhance the employees' awareness of compliance with information disclosure requirement, proactively prevented the divulging of insider information and insider trading risk and ensured its full compliance with the relevant requirements in information disclosure, through holding special training and examinations on information disclosure attended by all employees of the Bank. The Company's well-regulated operation and outstanding information disclosure practice has also received recognition from the regulatory authorities. The Company received the highest grade A in the annual appraisal of the information disclosure of listed companies organised by the SSE.

7.12 Shareholders' rights

Convening of extraordinary general meeting

An extraordinary general meeting shall be convened by the Board of Directors within two months upon request in writing by shareholders individually or jointly holding more than 10% of the Company's voting shares.

Making proposals at the shareholders' general meeting

If the Company convenes a shareholders' general meeting, shareholders individually or jointly holding more than 3% of the total issued voting shares of the Company may submit interim proposals in writing to the Company 15 working days before the convening of the shareholders' general meeting and submit the same to the convenor. The convenor shall issue a supplemental notice to the shareholders' general meeting and announce the contents of the interim proposal within two days after receiving the proposal.

Shareholder individually or jointly holding more than 1% of the issued shares of the Company may nominate candidate(s) for Independent Director(s) for election at the shareholders' general meeting.

Convening of extraordinary board meeting

An extraordinary board meeting may be held if it is requisitioned by shareholders representing more than one-tenth (10%) of the voting rights. The Chairman shall convene and preside over the extraordinary board meeting within ten (10) days upon receiving such proposal.

Making inquiries to the Board of Directors

Shareholders are entitled to review the information about the Company (including the Articles of Association, the status of share capital, the minutes of shareholders' general meeting, resolutions of board meetings, resolutions of meetings of the Board of Supervisors, financial and accounting reports, etc. in accordance with the provisions of the Articles of Association after submitting written documents certifying the class and quantity of shares of the Company held by them and the Company verifies the identity of such shareholders.

7.13 Major amendments to the Articles of Association of the Company

Due to the non-public issuance of domestic and offshore preference shares, the Company amended the Articles of Association. For details, please refer to the announcement, shareholders' circular and the documents of shareholders' general meetings of the Company published on 24 March 2017, 26 May 2017, 25 October 2017 and 8 January 2018 respectively.

7.14 Statement made by the Directors about their responsibility on the financial statements

The senior management of the Company provided the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The Directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2017 to present a true view of the operating results of the Company. So far as the Directors are aware, there are no material uncertainties related to events or conditions that might have a significant adverse effect on the Company's ability of sustainable operation.

7.15 Compliance with the Corporate Governance Code

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

7.16 Internal control

During the reporting period, in accordance with the unified arrangement of CBRC, the Company conducted a series of special rectification works of "Three Violations, Three Arbitrages and Four Improprieties" across the Bank, and carried out self-examination in accordance with the list of governance focus and chaos issued by the CBRC; we put forward the management improvement measures from these aspects of system improvement, process optimisation, system construction, culture promotion, business training and supervision and inspection. At the same time, in accordance with the overall objectives of the special rectification works of the CBRC and the inherent needs of strategic transformation of the Company, the Company proactively optimised and adjusted its business and customer structure and adhered to its operation philosophy of "customer-centric and creating value for customers", and continuously improved its capabilities of serving real economy and strengthened its internal control compliance and risk management level, so as to consolidate its management base for long-term development. During the reporting period, the Company steadily pushed forward the transformation of risk management and internal control and compliance from a "palliative" to a "cure" through the following initiatives: to proactively carry out the "Code of Conduct Training for Employees", "Training on Compliance" and "Case Study Warning Training" with a view to constantly reinforcing employees' awareness of compliance; to continue to promote the management initiatives such as investigations on employees' abnormal behaviors, maintaining a record of employee's non-compliance conduct and keeping a list of restriction on employees' violation and conducting due diligence investigation on termination of employment in an effort to improve the management mechanism of employee conduct; to launch the "Extending a Helping Hand(扶油瓶)" campaign throughout the Bank for a period of 3 years to refine the management; to continue to strengthen the supervision and inspection of various business activities and non-compliance accountability and to earnestly implement the strict management requirements so as to ensure the compliance operation and healthy development of businesses.

During the reporting period, the Company organised evaluation campaigns regarding internal control during the year 2017 across all departments of the Head Office, its branches and sub-branches. As reviewed by the Board of Directors of the Company, no significant defects in terms of completeness, reasonableness and effectiveness were found in the Company's internal control system. For more details, please refer to the "2017 Report on Assessment of Internal Control of China Merchants Bank Co., Ltd.", and the "Auditors' Report on Internal Control" issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP with standard unqualified opinions.

7.17 Internal audit

The Company has established a sound internal audit mechanism. Firstly, the Company has formulated an independent and vertical internal audit management system. The Head Office has an audit department which consists of 9 audit divisions. The audit department at the Head Office carries out the examination, supervision and appraisal functions independently, and reports to the Board of Directors and its audit committee. The person in charge of the audit department at the Head Office shall be appointed by the Board of Directors. The annual audit plan shall be approved by the Board of Directors and the audit results shall be reported to the Board of Directors. Secondly, the Company formulated a set of systems comprising of general rules, operational rules and practice based on the "Internal Audit Constitution of China Merchants Bank" and established an inspection model that gives equal emphasis on on-site and off-site checks. The Audit Department of the Company shall supervise, inspect and assess the effectiveness of the management activities, risk profile and internal control of the whole Bank (including domestic and overseas branches, business management departments, subsidiaries), follow up the rectification of audit findings, provide independent audit advices and the recommendations on operation management to the Board of Directors, promote the rectification of any audit findings, and strengthen the assessment and utilisation of any rectification results.

In 2017, the Company continued to promote audit standardisation, and formulated or revised 5 audit policies including information technology, protection of consumers' rights and market risk management, 7 audit standards including auditors' professional ethics, internal audit and the management measures for internal audit on overseas branches. At the same time, the Company implemented every regulatory requirement consistently, strove to improve the efficiency of internal audit, better determined the goals of internal control, enhanced internal audit on key areas, key risks and key points, and took various measures to improve the rectification results of audit. We also put more resources in building the audit information platform, further strengthened off-site audit, fully performed the duties of monitoring of error correction and disclosure of risk responsibilities, and gave full play to the monitoring, assessment and value-added functions of internal audit in promoting the implementation of strategic decisions and operation strategy across the Bank.

Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has proactively and effectively carried out supervision on the financial activities, internal control, risk management, lawful operation as well as the duty performance of the Board of Directors and the senior management of the Company pursuant to the Company Law, the Articles of Association of the Company and the supervisory duties delegated by relevant supervisory authorities.

Independent opinions on relevant matters from the Board of Supervisors:

Lawful operation

During the reporting period, the business activities of the Company complied with the Company Law, the Commercial Banking Law and the Articles of Association, the internal control system was improved, and the decision making procedures were lawful and valid. None of the Directors and senior management of the Company were found to have violated the relevant laws, regulations or the Articles of Association or had done anything detrimental to the interests of the Company and shareholders.

Authenticity of financial statements

Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu have audited the financial reports for 2017 in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively and have each produced a standard unqualified audit report, stating that the financial reports have given a true, objective and accurate view of the financial position and operating results of the Company.

Use of proceeds

During the reporting period, the use of proceeds of the Company was consistent with such usages as committed in the Prospectus of the Company.

Purchase and sale of assets

During the reporting period, the Company is unaware of any insider trading in its acquisition and sale of assets which would damage shareholders' interests or cause loss in the assets of the Company.

Related party transactions

During the reporting period, the Board of Supervisors was not aware of any related party transactions which were not conducted on an arm's length basis or were detrimental to the interests of the Company and its shareholders.

Implementation of resolutions passed at the general meeting(s)

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meeting in 2017, and concluded that the Board of Directors had duly implemented relevant resolutions passed at the general meeting(s).

Internal control

The Board of Supervisors had reviewed the "Report on Assessment of Internal Control of China Merchants Bank Co., Ltd. for 2017", and concurred with the Board of Directors' representations regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

By Order of the Board of Supervisors
Liu Yuan
Chairman of the Board of Supervisors

23 March 2018

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(See Annexures)

Independent Auditor's Report

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Deloitte. 德勤

To the shareholders of China Merchants Bank Co., Ltd.

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

Opinion

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as "the Group") set out on pages 131 to 271, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers and debt securities classified as receivables	
We identified impairment of loans and advances to customers and debt securities classified as receivables as a key audit matter due to the materiality of the balances and the subjective judgement applied by management in determining whether objective evidence of impairment exists and the related estimation uncertainty in the measurement of impairment allowance. As at 31 December 2017, as set out in note 19 to the consolidated financial statements, loans and advances to customers, comprising mainly corporate and retail loans and advances, amounted to RMB3,414,612 million, against which related impairment allowance of RMB150,432 million has been made. While, as set out in note 21(d) to the consolidated financial statements, debt securities classified as receivables amounted to RMB572,241 million, against which related impairment allowance of RMB4,302 million has been made. Significant judgement is required to determine the recoverability of the loans and advances and debt securities classified as receivables, which takes into account several factors including the financial strength of the borrowers and the guarantors, collateral pledged and the risk of specific transactions. Principal accounting policies, accounting estimates and judgements applied in determining the impairment allowance of loans and advances to customers and debt securities classified as receivables are set out in notes 2(n) and 2(z) to the consolidated financial statements. The provision of portfolio impairment allowances are based on the portfolio structure of loans and advances to customers and debt securities classified as receivables, the historical loss experience of similar credit risk characteristics and current economic conditions.	Our procedures in relation to impairment of loans and advances to customers and debt securities classified as receivables included evaluating the design and testing the operating effectiveness of automated and manual controls over the timely recognition of impaired loans and advances to customers and debt securities classified as receivables, and controls over the impairment calculation models including data inputs and the calculation of the impairment provisions. For a sample of loan and advances to customers and debt securities classified as receivables, we conducted credit reviews to form our own assessment as to whether impairment events had occurred and to assess whether impairment has been properly identified in a timely manner. We also tested the management's estimation of the expected future cash flows from customers, including expected recoverable amount of collateral and pledge held, recalculated the impairment allowance and compared the results in order to assess whether there was any material misstatement. In addition, for the collectively assessed loans and advances to customers and debt securities classified as receivables, we evaluated the appropriateness of the models used by the Group for determining the allowance ratios with reference to market practice and sample checked the historical data and the relevant calculations.

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Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
De-recognition of loans and advances to customers transferred	
We identified de-recognition of loans and advances to customers transferred as a key audit matter due to the materiality of the amount of loans and advances to customers transferred and the significant judgement applied by management in determining whether the loans and advances to customers transferred should be de-recognised. In year 2017, as set out in note 59 to the consolidated financial statements, the Group transferred loans and advances to customers with gross balance of 73,698 million and 46,338 million through securitisations and disposal to third parties, respectively. The Group analyzes the contractual rights and obligations in the transactions, tests and assesses the extent to which the associated risks and rewards of ownership of the loans and advances to customers transferred are transferred, so as to determine whether the de-recognition criteria were met. Significant judgement should be made by the management to determine whether the de-recognition criteria were met. Principal accounting policies and significant judgements applied in determining the de-recognition of financial assets transferred are set out in notes 2(h)(vi), 2(h)(x) and 2(z)(viii) to the consolidated financial statements.	Our procedures in relation to the de-recognition of loans and advances to customers transferred included evaluating the design and testing the operating effectiveness of relevant controls over the transfers, including review and approval of the disposal plans, review and approval of contractual terms for different disposal options and the assessment results of whether risks and rewards had been transferred. For a sample of loans and advances to customers transferred, we have examined relevant transfer agreements and other related legal documents, assessed the Group's obligations and rights, to assess whether the Group had transferred its rights to receive contractual cash flows, or whether the transfers qualified for the "pass-through" of those cash flows, to independent third parties. For a sample of loans and advances to customers transferred, we have checked the transfer results of risks and rewards of ownership of these transferred loans and advances to customers tested by management and assessed whether the de-recognition criteria were met for loans and advances to customers transferred. We have checked the appropriateness of disclosures related to the loans and advances to customer transferred in the consolidated financial statements.
Consolidation of Structured Entities	
We identified consolidation of structured entities as an area of key audit matter since significant judgment is applied by management to determine whether the Group has control of structured entities and the consolidation of structured entities or not significantly affects most of the accounts in the consolidated financial statements. The structured entities include the wealth management products, asset management schemes, mutual funds, etc. as disclosed in note 60 to the consolidated financial statements. When performing the assessment of whether the Group has control of structured entities, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services and the Group's exposure to variability of returns from interests that it holds in the structured entities.	Our procedures in relation to consolidation of structured entities included assessing and evaluating the management process in determining the consolidation scope for interests in structured entities as well as the purpose for setting up the structured entities. We also evaluated management judgement in whether has control in the structured entities and the conclusion about whether or not the consolidation criteria is met, with assessment, on a sample basis, of the terms of the relevant contracts, including the rights to variable returns of the structured entities and the ability of the Group to use its power to affect its return. We formed our own judgment and compared with that of the Group. We have checked the appropriateness of disclosures related to the structured entities in the consolidated financial statements.

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Other Information

The directors of the Bank are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Eric Tong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2017	2016
Interest income	3	242,005	215,481
Interest expense	4	(97,153)	(80,886)
Net interest income		144,852	134,595
Fee and commission income	5	69,908	66,003
Fee and commission expense		(5,890)	(5,138)
Net fee and commission income		64,018	60,865
Other net income	6	11,169	14,489
Operating income		220,039	209,949
Operating expenses	7	(70,431)	(65,148)
Operating profit before impairment losses		149,608	144,801
Impairment losses	11	(59,926)	(66,159)
Share of profits of associates		3	29
Share of profits of joint ventures		995	292
Profit before taxation		90,680	78,963
Income tax	12	(20,042)	(16,583)
Profit for the year		70,638	62,380
Attributable to:			
Equity shareholders of the Bank		70,150	62,081
Non-controlling interests		488	299
Earnings per share			
Basic and diluted (RMB)	14	2.78	2.46

The notes on pages 138 to 271 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2017	2016
Profit for the year		**70,638**	62,380
Other comprehensive income for the year after tax and reclassification adjustments			
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of financial statements of overseas subsidiaries		**(2,359)**	1,859
Available-for-sale financial assets: net movement in fair value reserve		**(5,369)**	(4,620)
Cash flow hedge: net movement in hedging reserve		**(67)**	(260)
Equity-accounted investees share of other comprehensive (expense) income		**44**	(141)
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability		**60**	31
Other comprehensive income for the year, net of tax	13	**(7,691)**	(3,131)
Attributable to:			
Equity shareholders of the Bank		**(7,692)**	(3,135)
Non-controlling interests		**1**	4
Total comprehensive income for the year		**62,947**	59,249
Attributable to:			
Equity shareholders of the Bank		**62,458**	58,946
Non-controlling interests		**489**	303

The notes on pages 138 to 271 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2017

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2017	2016
Assets			
Cash		**16,412**	16,373
Precious metals		**9,309**	2,981
Balances with central bank	15	**600,007**	581,156
Balances with banks and other financial institutions	16	**76,918**	103,013
Placements with banks and other financial institutions	17	**154,628**	200,251
Amounts held under resale agreements	18	**252,550**	278,699
Loans and advances to customers	19	**3,414,612**	3,151,649
Interest receivable	20	**28,726**	26,251
Financial assets at fair value through profit or loss	21(a)	**64,796**	55,972
Derivative financial assets	56(f)	**18,916**	8,688
Available-for-sale financial assets	21(b)	**383,101**	389,138
Held-to-maturity investments	21(c)	**558,218**	477,064
Debt securities classified as receivables	21(d)	**572,241**	528,748
Interest in joint ventures	23	**5,059**	3,630
Interest in associates	24	**20**	82
Property and equipment	25	**49,812**	43,857
Investment properties	26	**1,612**	1,701
Intangible assets	27	**7,255**	3,914
Goodwill	28	**9,954**	9,954
Deferred tax assets	29	**50,120**	31,010
Other assets	30	**23,372**	28,180
Total assets		**6,297,638**	5,942,311

The notes on pages 138 to 271 form part of these consolidated financial statements.

	Note	2017	2016
Liabilities			
Borrowing from central bank		**414,838**	330,108
Deposits from banks and other financial institutions	31	**439,118**	555,607
Placements from banks and other financial institutions	32	**272,734**	248,876
Amounts sold under repurchase agreements	33	**125,620**	162,942
Deposits from customers	34	**4,064,345**	3,802,049
Interest payable	35	**36,501**	36,246
Financial liabilities at fair value through profit or loss	36	**26,619**	23,576
Derivative financial liabilities	56(f)	**21,857**	11,152
Debt securities issued	37	**296,477**	275,082
Salaries and welfare payable	38(a)	**8,020**	7,048
Tax payable	39	**26,701**	19,523
Deferred tax liabilities	29	**1,070**	897
Other liabilities	40	**80,346**	65,843
Total liabilities		**5,814,246**	5,538,949
Equity			
Share capital	41	**25,220**	25,220
Other equity instruments		**34,065**	–
– Preference shares	42	**34,065**	–
Capital reserve	43	**67,523**	67,523
Investment revaluation reserve	44	**(3,812)**	1,454
Hedging reserve	45	**(86)**	(19)
Surplus reserve	46	**46,159**	39,708
Regulatory general reserve	47	**70,921**	67,838
Retained profits		**219,878**	180,447
Proposed profit appropriations	48(b)	**21,185**	18,663
Exchange reserve	49	**(843)**	1,516
Total equity attributable to shareholders of the Bank		**480,210**	402,350
Non-controlling interests	58	**3,182**	1,012
– Non-controlling interest		**2,012**	1,012
– Perpetual debt capital	58(a)	**1,170**	–
Total equity		**483,392**	403,362
Total equity and liabilities		**6,297,638**	5,942,311

The notes on pages 138 to 271 form part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 23 March 2018.

Li Jianhong	**Tian Huiyu**	**Company Chop**
Director	*Director*	

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(Expressed in millions of Renminbi unless otherwise stated)

2017

		Total equity attributable to equity shareholders of the Bank											Non-controlling interests		
	Note	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Perpetual debt capital	Non-controlling interest	Total
At 1 January 2017		25,220	–	67,523	1,454	(19)	39,708	67,838	180,447	18,663	1,516	402,350	–	1,012	403,362
Changes in equity for the year		–	34,065	–	(5,266)	(67)	6,451	3,083	39,431	2,522	(2,359)	77,860	1,170	1,000	80,030
(a) Net profit for the year		–	–	–	–	–	–	–	70,150	–	–	70,150	29	459	70,638
(b) Other comprehensive income for the year	13	–	–	–	(5,266)	(67)	–	–	–	–	(2,359)	(7,692)	–	1	(7,691)
Total comprehensive income for the year		–	–	–	(5,266)	(67)	–	–	70,150	–	(2,359)	62,458	29	460	62,947
(c) Capital contribution from equity holders		–	34,065	–	–	–	–	–	–	–	–	34,065	1,170	463	35,698
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries	22(iv)	–	–	–	–	–	–	–	–	–	–	–	–	495	495
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	–	–	(32)	(32)
(iii) Capital injection from preference shareholders	42	–	34,065	–	–	–	–	–	–	–	–	34,065	–	–	34,065
(iv) Issuance of perpetual capital instruments	58	–	–	–	–	–	–	–	–	–	–	–	1,170	–	1,170
(d) Profit appropriations		–	–	–	–	–	6,451	3,083	(30,719)	2,522	–	(18,663)	(29)	77	(18,615)
(i) Appropriations to statutory surplus reserve	46	–	–	–	–	–	6,451	–	(6,451)	–	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	47	–	–	–	–	–	–	3,083	(3,083)	–	–	–	–	–	–
(iii) Dividends declared and paid for the year 2016 (note(i))		–	–	–	–	–	–	–	–	(18,663)	–	(18,663)	–	77	(18,586)
(iv) Distribution to perpetual capital instruments	58	–	–	–	–	–	–	–	–	–	–	–	(29)	–	(29)
(v) Proposed dividends for the year 2017		–	–	–	–	–	–	–	(21,185)	21,185	–	–	–	–	–
At 31 December 2017		25,220	34,065	67,523	(3,812)	(86)	46,159	70,921	219,878	21,185	(843)	480,210	1,170	2,012	483,392

Notes: (i) China Merchants Fund Management Co., Ltd. cancelled the dividends distribution scheme of the year 2016 in 2017.

2016

		Total equity attributable to equity shareholders of the Bank										
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2016		25,220	67,523	6,188	241	34,009	64,679	145,887	17,402	(343)	360,806	952	361,758
Changes in equity for the year		–	–	(4,734)	(260)	5,699	3,159	34,560	1,261	1,859	41,544	60	41,604
(a) Net profit for the year		–	–	–	–	–	–	62,081	–	–	62,081	299	62,380
(b) Other comprehensive income for the year	13	–	–	(4,734)	(260)	–	–	–	–	1,859	(3,135)	4	(3,131)
Total comprehensive income for the year		–	–	(4,734)	(260)	–	–	62,081	–	1,859	58,946	303	59,249
(c) Capital contribution from equity holders		–	–	–	–	–	–	–	–	–	–	(166)	(166)
(i) Non-controlling shareholders' contribution to non-wholly owned subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(166)	(166)
(d) Profit appropriations		–	–	–	–	5,699	3,159	(27,521)	1,261	–	(17,402)	(77)	(17,479)
(i) Appropriations to statutory surplus reserve	46	–	–	–	–	5,699	–	(5,699)	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	47	–	–	–	–	–	3,159	(3,159)	–	–	–	–	–
(iii) Dividends declared and paid for the year 2015		–	–	–	–	–	–	–	(17,402)	–	(17,402)	(77)	(17,479)
(iv) Proposed dividends for the year 2016		–	–	–	–	–	–	(18,663)	18,663	–	–	–	–
At 31 December 2016		25,220	67,523	1,454	(19)	39,708	67,838	180,447	18,663	1,516	402,350	1,012	403,362

The notes on pages 138 to 271 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

(Expressed in millions of Renminbi unless otherwise stated)

	2017	2016
Cash flows from operating activities		
Profit before tax	90,680	78,963
Adjustments for:		
– Impairment losses on loans and advances	60,052	64,560
– Impairment losses on investments and other assets	(126)	1,599
– Unwind of discount	(561)	(1,001)
– Depreciation of properties and equipment and investment properties	5,062	4,287
– Amortisation of other assets	724	576
– Net gain on debt securities and equity investments	(729)	(11,632)
– Interest income on investments	(52,042)	(45,721)
– Interest expense on issued debt securities	13,436	9,925
– Share of profits of associates	(3)	(29)
– Share of profits of joint ventures	(995)	(292)
– Net gains on disposal of properties and equipment	(127)	(329)
Changes in:		
Balances with central bank	(25,205)	(40,633)
Loans and advances to customers	(322,105)	(470,444)
Other assets	(11,390)	(17,264)
Deposits from customers	262,296	230,351
Deposits and placements from banks and other financial institutions	(129,953)	(108,559)
Balances and placements with banks and other financial institutions with original maturity over 3 months	30,597	(51,432)
Borrowing from central bank	84,730	267,508
Other liabilities	20,833	(6,732)
Cash (used in) generated from operating activities before tax	25,174	(96,299)
Income tax paid	(30,834)	(24,316)
Net cash (used in) generated from operating activities	(5,660)	(120,615)
Investing activities		
Payment for the purchase of investments	(923,275)	(794,146)
Proceeds from the disposal of investments	803,283	765,069
Investments and net gains received from investments	52,205	60,509
Payment for the purchase of subsidiaries, associates, joint venture	(606)	(774)
Payment for the purchase of properties and equipment and other assets	(16,336)	(17,504)
Proceeds from the disposal of properties and equipment and other assets	191	561
Proceeds from the disposal of subsidiaries, associates, joint venture	67	–
Loans repaid by joint ventures	–	5
Net cash generated from(used in) investing activities	(84,471)	13,720

The notes on pages 138 to 271 form part of these consolidated financial statements.

	Note	2017	2016
Financing activities			
Proceeds from the issue of debt securities		52,449	12,432
Proceeds from the issue of negotiable interbank certificates of deposits		559,795	545,430
Proceeds from the issue of certificates of deposits		19,086	14,740
Proceeds from the issue of perpetual debt capital		1,170	–
Proceeds from the issue of preferred shares		34,065	–
Proceeds from non-controlling shareholders		495	–
Repayment of issued debt securities		(30,186)	(5,227)
Repayment of negotiable interbank certificates of deposits		(569,088)	(533,210)
Repayment of certificates of deposit		(11,916)	(8,019)
Payment for acquiring additional non-controlling equity		(32)	(166)
Dividends paid		(18,692)	(17,402)
Interest paid on issued debt securities		(14,483)	(12,574)
Net cash (used in) generated from financing activities		22,663	(3,996)
Net (decrease) increase in cash and cash equivalents		(67,468)	(110,891)
Cash and cash equivalents as at 1 January		532,112	635,843
Effect of foreign exchange rate changes		(4,219)	7,160
Cash and cash equivalents as at 31 December	51(a)	460,425	532,112
Cash flows from operating activities include:			
Interest received		188,045	169,991
Interest paid		83,869	73,803

The notes on pages 138 to 271 form part of these consolidated financial statements.

Notes to the Financial Consolidated Statements

For the year ended December 31, 2017
(Expressed in millions of Renminbi unless otherwise stated)

1. Organisation and principal activities

(a) Organisation

China Merchants Bank Co., Ltd. (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H-Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2017, apart from the Head Office, the Bank had 51 branches in the Mainland China, Hong Kong, New York, Singapore, London, Sydney and Luxembourg. In addition, the Bank has four representative offices in Beijing, London, New York and Taipei.

(b) Principal activities

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

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

(a) Statement of compliance and basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKEx.

(b) Changes in accounting policies

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the actual improvements to IFRS 2014-2016 cycle

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

(b) Changes in accounting policies*(continued)*

i. New and revised IFRSs effective in the current period applied by the Group*(continued)*

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 51b. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 51b, the application of these amendments has had no impact on the Group's consolidated financial statements.

The adoption of amendments to IAS 12 and amendments to IFRS 12 have had no significant impact on the consolidated financial statements.

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

(b) Changes in accounting policies *(continued)*

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

		Effective for annual period beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers and the related Amendments	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	a date to be determined
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 40	Transfers of Investment Property	1 January 2018
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019

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

(b) Changes in accounting policies *(continued)*

ii. Standards and amendments that are not yet effective and have not been adopted by the Group *(continued)*

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, and general hedge accounting and impairment requirements for financial assets.

Key requirements for IFRS 9

– All recognised financial assets that are within the scope of IFRS 9 are required to determine initial classification and measurement based on the contractual cash flows characteristics and their business model. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

– With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. However, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

– In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

– The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

(b) Changes in accounting policies *(continued)*

ii. Standards and amendments that are not yet effective and have not been adopted by the Group *(continued)*

***IFRS 9 Financial Instruments** (continued)*

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Group anticipates the following impacts on initial application of IFRS 9:

Classification and measurement

- Loans and advances to customers as disclosed in note 19, debt securities classified as receivables disclosed in note 21(d) and held-to-maturity investments as disclosed in note 21(c), measured at amortised costs:

  Most of these financial assets are held within a business model whose objective is to collect contractual cash flows that are solely payments of principal and interest on the principal outstanding ("contractual cash flow characteristics test"). Accordingly, they will continue to be subsequently measured at amortised costs upon the application of IFRS 9.

  However, some of these financial assets satisfy the contractual cash flow characteristics tests, but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these financial assets. Accordingly, these financial assets will be measured at FVTOCI upon the applications of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the financial assets are derecognised. Upon initial application of IFRS 9, fair value gains or loss, representing the differences between the amortised cost and fair value, will be adjusted to other comprehensive income as at 1 January 2018.

  The remaining financial assets which fail the contractual cash flow characteristics test or are held with a business model whose objective is neither to collect contractual cash flows nor to both collect contractual cash flows and sell these financial assets, and therefore will be measured subsequently at fair value with fair value gains or losses to be recognised in profit or loss under IFRS 9. On initial application of IFRS 9, fair value gains or loss, representing the differences between the amortised cost and fair value, will be adjusted to retained profits as at 1 January 2018.

- Debt instruments classified as available-for-sale financial assets carried at fair value as disclosed in note 21(b):

  Some of these financial assets satisfy the contractual cash flow characteristics tests, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt instruments. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI upon the applications of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the debt instruments are derecognised.

  In addition, some of these financial assets fail the contractual cash flow characteristics test or are held with a business model whose objective is neither to collect contractual cash flows nor to both collect contractual cash flows and sell these financial assets, and therefore will be measured subsequently at fair value with fair value gains or losses to be recognised in profit or loss instead of other comprehensive income. On initial application of IFRS 9, investment revaluation reserve relating to those financial assets subsequently measured at fair value through profit or loss will be transferred to retained profits as at 1 January 2018.

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

(b) Changes in accounting policies *(continued)*

ii. Standards and amendments that are not yet effective and have not been adopted by the Group *(continued)*

***IFRS 9 Financial Instruments** (continued)*

Classification and measurement (continued)

- Equity instruments, funds classified as available-for-sale financial assets carried at fair value as disclosed in note 21(b):

  Some equity instruments are qualified for designation as measured at FVTOCI under IFRS 9 and the Group elects this option. For these financial assets, the fair value gains or losses accumulated in the investment revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment under IAS 39. This will affect amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income. The Group will not elect the option for designation at FVTOCI for the remaining available-for-sale equity instruments carried at fair value. Therefore, the remaining equity instrument, together with funds not qualified for the designation at FVTOCI, will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of IFRS 9, investment revaluation reserve relating to these remaining financial assets will be transferred out to retained profits as at 1 January 2018.

The Group anticipates that the application of IFRS 9 does not have a material impact on the measurement basis of other financial assets and liabilities of the Group.

Impairment

The Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs, debt instruments measured at FVTOCI, loan commitments and other items that subject to the impairment provision upon application of IFRS 9 by the Group.

The Group anticipates that the application of IFRS 9 does not have a material impact on Group's current hedge designation and hedge accounting.

Based on the assessment by the Group, the adoption of the new classification and measurement basis and expected credit loss model mentioned above under IFRS 9 will reduce retain profits at 1 January 2018 by RMB9.0 billion and increase other comprehensive income at 1 January 2018 by RMB3.2 billion, after deducting the deferred tax.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments revise existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or depending the business model, at fair value through other comprehensive income) in the case of negative compensation payments (where the lender has make a settlement payment in the event of termination by the borrower).

The Group do not anticipate that the application amendments to IFRS 9 will have a material impact on the classification of financial assets in the respective reporting periods.

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

(b) Changes in accounting policies *(continued)*

ii. Standards and amendments that are not yet effective and have not been adopted by the Group *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer

– Step 2: Identify the performance obligations in the contract

– Step 3: Determine the transaction price

– Step 4: Allocate the transaction price to the performance obligations in the contract

– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Clarification to IFRS 15 Revenue from Contracts with Customers

Clarification to IFRS 15 was issued in relation to the identification of performance obligation, principle versus agent considerations, as well as licensing application guidance.

The Group anticipates that the application of IFRS 15 may result in more disclosures, however, the Group does not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

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

(b) Changes in accounting policies *(continued)*

ii. Standards and amendments that are not yet effective and have not been adopted by the Group *(continued)*

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB14,471 million as disclosed in note 54(c). A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligation under lease to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payment.

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

(c) Basis of measurement

Unless otherwise stated, the consolidated financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period and future periods, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the future period are discussed in Note 2(z).

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

(d) Subsidiaries and non-controlling interests and business combination

Financial statements include financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's identifiable net assets. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(h)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see Note 2(e)) or, an associate (see Note 2(f)).

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the Group, liabilities incurred or assumed by the Group, and any equity interests issued by the Group. Acquisition related costs are recognized in the consolidated income statement as incurred.

At the acquisition date, irrespective of non-controlling interests, the identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair values; except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 – Income Taxes and IAS 19 – Employee Benefits, respectively.

Goodwill is measured as the excess of the difference between (i) the consideration transferred, the fair value of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) and (ii) the net fair value of the identifiable assets acquired and the liabilities and contingent liabilities incurred or assumed.

Non-controlling interests that represent ownership interests in the acquiree, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are accounted for at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

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

(e) Joint ventures

A joint venture is an arrangement in which the Group has joint control, where by the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When judge whether there is a joint control, the Group usually considers the following cases:

– whether any party within the joint arrangement cannot control the relevant activities of the joint ventures;

– whether the decisions about the joint ventures' relevant activities require the unanimous consent of the parties sharing control.

The consolidated statement of profit or loss includes the Group's share of the results of joint ventures for the year and the consolidated statement of financial position includes the Group's share of the net assets of the joint ventures.

Interests in the joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the joint ventures, until the date on which significant influence or joint control ceases.

Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the joint ventures' net assets. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognized immediately in profit or loss in the period in which investment is acquired. The consolidated statement of profit or loss includes post-tax results of the joint ventures for the year, including any impairment loss on goodwill relating to the investment in the joint ventures recognised for the year (see Notes 2(g) and 2(n)(ii)).

When the Group's share of losses exceeds its interest in the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint ventures. For these purposes, the Group's interest in the joint ventures is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over a joint venture and no significant impact occurs, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(h)).

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

(f) Associates

Associate is an entity in which the Group has significant influence, but not control, or joint control, including participation in the financial and operating policy decisions.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

When judging whether there is a significant influence, the Group usually considers the following cases:

– representation on the Board of Directors or equivalent governing body of the investee;

– participation in policy-making processes;

– material transactions between the entity and its investee.

Investments in associates are accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any excess of the group's share of the net fair value of the identifiable assets and liabilities over the cost of the investments, is recognized immediately in profit or loss in the period in which investment is acquired. The consolidated statement of profit or loss includes the Group's post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see Notes 2(g) and 2(n)(ii)).

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For these purposes, the Group's interest in the associates is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss, previous other comprehensive income would be reclassified to profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(h)).

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

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest based on the fair value of net assets acquired in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU") or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(n)(ii)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Financial instruments

(i) Initial recognition and classification

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

All financial assets and financial liabilities are recognised in the consolidated statement of financial position when and only when, the Group becomes a party to the contractual provisions of the instruments. Financial assets are derecognised on the date when the contractual rights to substantially all the risks and rewards of ownership or the cash flows expire are transferred.

At initial recognition, all financial assets and liabilities are measured at fair value. In the case of financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data. Transaction costs of financial assets and liabilities at fair value through profit or loss are expensed immediately.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

– *Financial assets and financial liabilities at fair value through profit or loss*

Include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss.

All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

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

(h) Financial instruments *(continued)*

(i) Initial recognition and classification *(continued)*

– ***Financial assets and financial liabilities at fair value through profit or loss*** *(continued)*

Financial instruments are designated as financial assets and financial liabilities at fair value through profit or loss upon initial recognition when:

– the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

– the blend instrument that includes embedded derivative which match the condition.

– ***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Group has the positive intent and ability to hold to maturity;

– ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market;

– ***Available-for-sale financial assets***

Available-for-sale financial assets are financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments;

– ***Other financial liabilities***

Financial liabilities other than those at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity investments and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

For financial assets and liabilities measured at amortised cost, a gain or loss is recognised in the consolidated statement of profit or loss when the financial asset or liability is derecognised, impaired or amortised.

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

(h) Financial instruments *(continued)*

(ii) Hedge accounting

The Group designates certain derivatives as hedging instruments of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in cash flow hedge provided certain criteria are met.

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

Cash flow hedge

The effective portions of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognised in other comprehensive income and accumulated separately in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss.

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from equity to the consolidated statement of profit or loss in the same periods during which the hedged cash flow affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the consolidated statements of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the consolidated statement of profit or loss.

Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the change in cash flows must offset each other in the range of 80 percent to 125 percent for the hedge to be deemed highly effective.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial instruments designated at fair value and do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss.

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

(h) Financial instruments *(continued)*

(iii) Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with banks and other financial institutions

Banks represent other banks approved by the People's Bank of China ("PBOC") and other authorities. Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC") and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Resale and repurchase agreements

Amounts for purchase of financial assets under resale agreements are accounted for under "amounts held under resale agreements". Amounts from sale of financial assets under repurchase agreements are accounted for under "amounts sold under repurchase agreements".

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense (as appropriate).

Investments

Equity investments are accounted for as financial assets at fair value through profit or loss or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity investments, debt securities classified as receivables, or available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances to customers

Loans and advances directly granted by the Group to customers, participation in syndicated loans and finance leases receivables are accounted for as loans and advances to customers.

(iv) Derivative financial instruments

The Group's derivative financial instruments mainly include forward, foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Group enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of profit or loss other than cash flow hedge, for cash flow hedge, the gains and losses arising from the effective hedging part recognised in other comprehensive income.

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

(h) Financial instruments *(continued)*

(v) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

– the host contract is not itself carried at fair value through profit or loss;

– the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and

– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

(vi) Securitisations

The Group securitises various credit assets, which generally results in the sale of these assets to special purpose entities, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests). When the securitisation results in derecognisation or partial derecognisation of financial assets, the Group allocates the carrying amount of the transferred financial assets between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation, which is the difference between the consideration received and the allocated carrying amount of the financial assets derecognised, are recorded in "other net income". The retained interests continue to be recognised on the same basis before the securitisation.

When applying the policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on the transferred financial assets and the degree of control exercised by the Group over the transferred financial assets:

– when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;

– when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and

– when the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

(vii) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Group for repurchasing self-issued equity instruments are deducted from shareholders' equity.

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

(h) Financial instruments *(continued)*

(viii) Perpetual debt capitals

At initial recognition, the Group classifies the perpetual debt capitals issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met:

(i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and

(ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Perpetual debt capitals issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of interests during the instruments' duration is treated as profit appropriation. When the perpetual debt capitals are redeemed, the redemption price is charged to equity.

(ix) Preference shares

At initial recognition, the Group classifies the preference shares issued or their components as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

The Group classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

(x) Derecognition of financial assets and liabilities

(a) Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset; or

– has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

(h) Financial instruments *(continued)*

(x) Derecognition of financial assets and liabilities *(continued)*

(b) Securitisation

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When a securitisation of financial assets does not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration collected from third parties are recorded as a financial liability.

(c) Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(d) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

(i) Property, equipment, investment property and depreciation

Property, equipment and investment property, are stated at cost or deemed cost less accumulated depreciations and impairment losses. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of property, equipment and investment property over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Motor vehicles and others	3 – 5 years
Leasehold improvements (leasing property)	3 years
Leasehold improvements (self-owned property)	the estimated useful lives

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property or other asset when the asset is ready for its intended use. No depreciation is provided for construction in progress.

Subsequent expenditure relating to a property, equipment and investment property is capitalised only when it is probable that future economic benefits associated with the property and equipment will flow to the Group. All other expenditure is recognised in the consolidated statement of profit or loss as an expense as incurred.

Profits or losses on disposal of property, equipment and investment property are determined as the difference between the net disposal proceeds and the carrying amount of the property, equipment, investment property and are accounted for in the consolidated statement of profit or loss as they arise.

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

(j) Repossessed assets

In the recovery of impaired loans and receivables, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrowers, repossessed assets are reported in "other assets".

Repossessed assets are measured at fair value at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated statement of profit or loss.

(k) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see Note 2(n)(ii)). Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives.

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at 31 December 2017.

The amortization period of intangible assets is as follow:

Land use right	Software and Others	Core deposit
30~50 years	2~20 years	28 years

Both the periods and method of amortisation are reviewed annually.

(l) Finance and operating lease

(i) Classification

Lease is classified into finance and operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the consolidated statement of financial position as "loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n)(i).

(iii) Operating leases

– *Assets leased in under operating leases*

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

– *Assets leased out under operating leases*

Property, equipment and investment property leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(i) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n)(ii). Income derived from operating leases is recognised in the consolidated statement of profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit or loss in the accounting period in which they are incurred.

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

(m) Insurance contracts

Insurance contracts classification

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Insurance income recognition

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

Insurance contract liabilities

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period.

The Group has considered the impact of time value in the liability calculation for long-term life insurance. The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

(n) Impairment

(i) Financial assets

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidences include:

– significant financial difficulty of the issuer or obligor;
– a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
– the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
– the disappearance of an active market for that financial asset because of financial difficulties of the issuer;

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

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

– upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the country or region of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;

– significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the Group operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;

– other objective evidence indicating there is an impairment of a financial asset.

Impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated statement of profit or loss.

Impairment losses on loans and receivables, held-to-maturity investments

The Group uses two methods of assessing impairment losses on loans and receivables, held-to-maturity investments: those assessed individually and those assessed on a collective basis.

– *Individually assessed*

Loans and receivables, held-to-maturity investments which are considered individually significant are assessed individually for impairment.

Impairment allowances are made on individually impaired significant loans and receivables, held-to-maturity investments when there is objective evidence of impairment that will impact the estimated future cash flows of the loans and receivables, held-to-maturity investments. Individually impaired loans and advances are graded as substandard or below.

Impairment allowance of an individually impaired significant loans and receivables, held-to-maturity investments is measured as the difference between the loans and receivables, held-to-maturity investments' carrying amount and the present value of estimated future cash flows discounted at the loans and receivables, held-to-maturity investments' applicable effective interest rate. The carrying amount of the loans and receivables, held-to-maturity investments is reduced through the allowance for impairment losses.

The calculation of the present value of the estimated future cash flows of a collateralised loans and receivables, held-to-maturity investments reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on loans and receivables, held-to-maturity investments *(continued)*

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

– no objective evidence of impairment exists for an individually assessed loans and receivables, held-to-maturity investments; and

– for homogeneous groups of loans and receivables, held-to-maturity investments that are not individually significant with similar credit risk characteristics.

If no objective evidence of impairment exists for an individually assessed loans and receivables, held-to-maturity investments on an individual basis, whether significant or not, the loans and receivables, held-to-maturity investments are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans and receivables, held-to-maturity investments that are impaired at the end of the reporting period but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans and receivables, held-to-maturity investments in the pool of loans and receivables, held-to-maturity investments, those loans and receivables, held-to-maturity investments are removed from the pool. Loans and receivables, held-to-maturity investments that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

– the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loans and receivables, held-to-maturity investments portfolio based primarily on the historical loss experience;

– estimating time that required from the appearance of loss to its confirmation and specific loan provision, receivables and hold-to-maturity investment impairment, and management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans and receivables, held-to-maturity investments

Portfolios of homogeneous loans and receivables, held-to-maturity investments are collectively assessed using the historical loss experience of similar credit risk characteristics and current economic conditions methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loans and receivables, held-to-maturity investments that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of profit or loss.

When the Group determines that loans and receivables, held-to-maturity investments has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loans and receivables, held-to-maturity investments is written off against its allowance for impairment losses. Amount recovered from loans and receivables, held-to-maturity investments that has been written off will be reversed through the impairment losses account in the consolidated statement of profit or loss.

Loans and advances with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and advances are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

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

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income is reclassified from other comprehensive income and is recognised in the consolidated statement of profit or loss.

The amount of the cumulative loss that is recognised in the consolidated statement of profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated statement of profit or loss.

For available-for-sale equity investments measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated statement of profit or loss.

Impairment losses recognised in the consolidated statement of profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of profit or loss. Any subsequent increase in the fair value of these assets is recognised directly in other comprehensive income.

(ii) Other assets

The carrying amount of property, equipment and investment property is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of profit or loss. The recoverable amount of an asset is the greater of its fair value less disposal expense and present value of future expected cash flow. In assessing value in use, the estimated future cash flows are discounted to their present values.

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value net disposal expense and the present value of future cash flow. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

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

(n) Impairment *(continued)*

(ii) Other assets *(continued)*

– *Recognition of impairment losses*

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversal of impairment losses*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

(o) Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realizable value. Precious metals that are related to the Group's trading activities are initially recognized at fair value, with changes in fair value arising from re-measurement recognized directly in the consolidated statement of profit or loss in the period in which they arise.

(p) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within "other liabilities".

The deferred income is amortised in the consolidated statement of profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(n)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is highly probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

(q) Income recognition

(i) Interest income

Interest income is recognised in the consolidated statement of profit or loss on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses from all financial assets and liabilities that are classified as financial assets at fair value through profit or loss are considered to be incidental and are therefore presented together with other net income arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income is recognised or accrued (for those services that are provided over a specified period of time) in the consolidated statement of profit or loss when the corresponding service is provided.

(iii) Dividend income

– dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.

– where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

(iv) Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

(r) Taxation

Current income tax and movements in deferred tax balances are recognised in the consolidated statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates of expected returns of the assets or the repayment of the liabilities. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

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

(r) Taxation *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Foreign currencies translations

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as relevant adjustment to interest costs on those foreign currency borrowings;

Exchange differences on transactions entered into in order to the effective portion of the hedge certain foreign currency risks;

Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right, which is executable, to set off the recognised amounts or realise the asset and settle the liability simultaneously, the transactions are intended to be settled on a net basis.

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

(u) Employee benefits

(i) Salaries and staff welfare

Salaries, bonuses and other benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of profit or loss as incurred.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds form the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, considerations in future contributions to the plan. To calculate the present value of economic benefits consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in the consolidated statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Share-based payment

The Group offers H share appreciation rights to its employee, namely H Share Appreciation Rights Scheme for the Senior Management ("the Scheme"). Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share. The Group recognises the services for the period as related costs or expenses, with a corresponding increase in liability, at an amount equal to the fair value of the liability based on the best estimate of the outcome of vesting at the end of each reporting period within the vesting period. Until the liability is settled, the Group remeasures the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The fair value of the H share appreciation rights is using Black-Scholes model, taking into account the terms and condition upon which the H share appreciation rights were granted.

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

(v) Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly, indirectly or jointly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they meet most of these criteria.

(x) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the consolidated statement of financial position as the risks and rewards of the assets reside with the customers. The Group only charges a relevant commission.

(y) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

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

(z) Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on the assets and liabilities at the end of the reporting period. These estimates involve assumptions about cash flows and the discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to the assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(i) Impairment losses on loans and advances to customers, debt securities classified as receivables and held-to-maturity investments

The Group reviews losses on loans and advances to customers, debt securities classified as receivables and held-to-maturity investments on a regular basis to assess whether they are impaired and to assess the specific amount of impairment losses in the event of impairment. Impairment of objective evidence includes observable data showing a significant decline in estimated future cash flows from loans and advances to customers, debt securities classified as receivables and held-to-maturity investments, showing that borrowers repayment of the negative changes in the observable information, or national or regional economic conditions change caused by portfolio losses on loans and advances to customers, debt securities classified as receivables and held-to-maturity investments and loans and advances to customers, debt securities classified as receivables and held-to-maturity investments defaults and other matters. Loans and advances to customers, debt securities classified as receivables and held-to-maturity investments impairment losses assessed individually are the net decrease in the present value of estimated future cash flows. When loans and advances to customers, debt securities classified as receivables and held-to-maturity investments are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances to customers, debt securities classified as receivables and held-to-maturity investments. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce the difference between expected and actual losses.

(ii) Impairment of available-for-sale for equity investments

For available-for-sale for equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical price of the specific equity investments as well as other factors, such as sector performance and financial information regarding the investee.

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

(z) Significant accounting estimates and judgements *(continued)*

(iii) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair value for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. If the fair value is measured using third party information such as brokerage quotes or pricing services, the valuation team will evaluate the evidence obtained from third parties to support the conclusion.

(iv) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity investments are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale financial assets.

(v) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

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

(z) Significant accounting estimates and judgements *(continued)*

(vi) Control over structured entity

Where the Group acts as asset manager of structured entities, the Group makes judgment on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from interests that it holds in the structured entities.

(vii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the groups to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from groups and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(viii) De-recognition of financial assets transferred

In its normal course of business, the Group transfers its financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full de-recognition.

Where the Group enters into structured transactions by which it transfers financial assets to structured entities, the Group analyzes whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets are transferred.

The Group analyzes the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualifies for the "pass through" of those cash flows to independent third parties.
- the extent to which the associated risks and rewards of ownership of the financial assets are transferred. Significant judgment is applied in the Group's estimation with regard to the cash flows before and after the transfers and other factors that effect the outcomes of Group's assessment on the extent that risks and rewards are transferred.

3. Interest income

	2017	2016
Loans and advances to customers		
– Corporate loans	65,864	64,829
– Retail loans	98,386	82,573
– Discounted bills	4,608	3,834
Balances with central bank	8,679	8,170
Balances with banks and other financial institutions	1,271	875
Placements with banks and other financial institutions	6,019	4,743
Amounts held under resale agreements	5,136	4,736
Investments	52,042	45,721
Interest income on financial assets that are not at fair value through profit or loss	242,005	215,481

Note: For the year ended 31 December 2017, included in the above is interest income of RMB561 million accrued on impaired loans (2016: RMB1,001 million) and nil for impaired debt securities investments (2016: Nil).

4. Interest expense

	2017	2016
Deposits from customers	50,329	46,000
Borrowing from central bank	9,250	4,793
Deposits from banks and other financial institutions	13,606	12,163
Placements from banks and other financial institutions	4,441	5,032
Amounts sold under repurchase agreements	6,091	2,973
Debt securities issued	13,436	9,925
Interest expense on financial liabilities that are not at fair value through profit or loss	97,153	80,886

5. Fee and commission income

	2017	2016
Bank cards fees	14,011	11,083
Remittance and settlement fees	10,273	6,526
Agency services fees	12,627	13,121
Commissions from credit commitment and lending business	3,712	4,038
Commissions on trust and fiduciary activities	22,788	23,358
Others	6,497	7,877
Total	69,908	66,003

6. Other net income

	2017	2016
Profit/(loss) from fair value change	375	(2,511)
– financial instruments held for trading	97	(463)
– financial instruments designated at fair value through profit or loss	7	(120)
– derivatives instruments	400	32
– precious metals	(129)	(1,960)
Investment income	5,207	11,632
– financial instruments at fair value through profit or loss	1,067	1,815
– available-for-sale financial assets	836	2,061
– gain on disposal of bills and others	2,937	5,658
– physical precious metals	367	2,098
Exchange gain	1,934	2,857
Other income	3,202	1,668
– rental income	2,882	1,142
– insurance income	320	526
Others	451	843
Total	11,169	14,489

7. Operating expenses

	2017	2016
Staff costs		
– Salaries and bonuses (note (i))	28,286	22,061
– Social insurance and corporate supplemental insurance	4,696	5,038
– Others	6,530	5,712
Subtotal	39,512	32,811
Business tax and surcharges	2,152	6,362
Property, equipment and investment properties depreciation	5,062	4,287
Intangible assets amortization	714	560
Rental expenses	4,189	4,113
Other general and administrative expenses (note (ii))	18,570	16,767
Subtotal	70,199	64,900
Charge for insurance claims	232	248
Total	70,431	65,148

Notes:

(i) Performance bonus is included in the salaries and bonuses, the details of which are disclosed in Note 38(a).

(ii) Auditors' remuneration amounted to RMB20 million for the year ended 31 December 2017 (2016: RMB16 million), included in other general and administrative expenses.

8. Directors' and supervisors' emoluments

The emoluments of the Directors and Supervisors during the year are as follows:

	2017				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,620	–	601	5,221
Li Hao	–	4,200	–	546	4,746
Subtotal	–	8,820	–	1,147	9,967

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.

Non-executive directors					
Li Jianhong	–	–	–	–	–
Li Xiaopeng	–	–	–	–	–
Sun Yueying	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Su Min	–	–	–	–	–
Zhang Jian	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Subtotal	–	–	–	–	–

The non-executive directors' emoluments shown above were for their services as directors of the Bank.

Independent non-executive directors and supervisors					
Liang Jinsong	500	–	–	–	500
Wong Kwai Lam	500	–	–	–	500
Pan Chengwei	500	–	–	–	500
Pan Yingli	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Liu Yuan	–	4,255	–	491	4,746
Fu Junyuan	–	–	–	–	–
Wen Jianguo	–	–	–	–	–
Wu Heng	–	–	–	–	–
Jin Qingjun	400	–	–	–	400
Ding Huiping	400	–	–	–	400
Han Zirong	400	–	–	–	400
Xu Lizhong	–	2,953	–	384	3,337
Huang Dan	–	2,159	–	281	2,440
Wong See Hong (iii)	417	–	–	–	417
Subtotal	4,117	9,367	–	1,156	14,640

The independent non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.

8. Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2017				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Guo Xuemeng (iv)	–	–	–	–	–
Subtotal	–	–	–	–	–

The former executive, non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.

Total	4,117	18,187	–	2,303	24,607

Notes:

(i) The total remuneration before tax for the full-time directors, supervisors and executive officers of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.

(ii) As at 31 December 2017, the Group has offered 10 phases of H share appreciation rights scheme to its senior management ("the Scheme"). Details of the Scheme are set out in Note 38(a)(iii).

(iii) During the reporting period, Wong See Hong was approved by the China Banking Regulatory Commission in February 2017.

(iv) In February 2017, Guo Xuemeng resigned as the Bank's independent Non-Executive Director.

8. Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,200	2,029	546	6,775
Li Hao	–	3,780	1,844	491	6,115
Subtotal	–	7,980	3,873	1,037	12,890

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Bank and the Group.

Non-executive directors					
Li Jianhong	–	–	–	–	–
Li Xiaopeng	–	–	–	–	–
Sun Yueying	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Su Min	–	–	–	–	–
Zhang Jian (iii)	–	–	–	–	–
Wang Daxiong (iii)	–	–	–	–	–
Subtotal	–	–	–	–	–

The non-executive directors' emoluments shown above were for their services as directors of the Bank.

Independent non-executive directors and supervisors					
Liang Jinsong	500	–	–	–	500
Wong Kwai Lam	500	–	–	–	500
Pan Chengwei	500	–	–	–	500
Pan Yingli	500	–	–	–	500
Zhao Jun	500	–	–	–	500
Liu Yuan	–	3,360	1,660	437	5,457
Fu Junyuan	–	–	–	–	–
Wen Jianguo (iii)	–	–	–	–	–
Wu Heng (iii)	–	–	–	–	–
Jin Qingjun	400	–	–	–	400
Ding Huiping (iii)	200	–	–	–	200
Han Zirong (iii)	200	–	–	–	200
Xu Lizhong (iii)	–	1,716	–	223	1,939
Huang Dan	–	1,973	–	257	2,230
Wong See Hong (iii)	–	–	–	–	–
Subtotal	3,300	7,049	1,660	917	12,926

The independent non-executive directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.

8. Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Ma Zehua (iv)	–	–	–	–	–
Li Yinquan (iv)	–	–	–	–	–
Zhu Genlin (iv)	–	–	–	–	–
Liu Zhengxi (iv)	–	–	–	–	–
Pan Ji (iv)	75	–	–	–	75
Dong Xiande (iv)	–	–	–	–	–
Xiong Kai (iv)	–	1,602	–	208	1,810
Guo Xuemeng (iv)	–	–	–	–	–
Subtotal	75	1,602	–	208	1,885
The former executive, non-executive Directors' and supervisors' emoluments shown above were for their services as directors or supervisors of the Bank.					
Total	3,375	16,631	5,533	2,162	27,701

8. Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

Notes:

(i) On 29 September 2017, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2016. Disclosures relating to the directors' and supervisors' emoluments for the year ended 31 December 2016 in Note 8, 9 & 57(h) were adjusted correspondingly.

(ii) As at 31 December 2016, the Group has offered 9 phases of H share appreciation rights scheme to its senior management ("the Scheme"). In 2016, none of the granted share appreciation rights was exercised. Details of the Scheme are set out in Note 38(a)(iii).

(iii) During the reporting period, the Bank completed the election of Board of Directors and supervisors. According to the resolutions passed at the Bank's the 2015 Annual General Meeting of shareholders, Mr. Xu Lirong, Mr.Zhang Jian, Mr. Wang Daxiong and Mr. Zhang Feng were newly elected as non-executive directors of the tenth session of the Board of Directors of the Bank, and Mr. Wong See Hong was newly elected as independent non-executive director of the tenth session of the Board of Directors of the Bank. The appointment qualifications of Mr. Zhang Jian and Mr. Wang Daxiong were approved by the China Banking Regulatory Commission in November 2016. The appointment qualification of Mr. Wong See Hong was approved by the China Banking Regulatory Commission in February 2017. The appointment qualifications of Mr. Xu Lirong, Mr. Zhang Feng are still subject to approval by the China Banking Regulatory Commission. Mr. Xu Lirong was elected as vice Chairman at the first meeting of the tenth session of the Board of Directors of the Bank, but his qualification for serving as vice Chairman is still subject to approval by the China Banking Regulatory Commission.

During the reporting period, according to the resolutions passed at the 2015 Annual General Meeting of the Bank, Mr. Wen Jianguo and Mr. Wu Heng were newly elected as shareholder supervisors of the Tenth Session of the board of Supervisors of the Bank, Mr. Ding Huiping and Mr. Han Zirong were newly elected as external supervisors of the Tenth Session of the board of Supervisors of the Bank.

During the reporting period, according to the resolutions passed at Worker's Congress of the Bank held at 20 May 2016, Mr. Xu Lizhong was newly elected as employee supervisors of the Tenth Session of the board of Supervisors of the Bank.

(iv) During the reporting period, Ma Zehua resigned as the Bank's vice Chairman and non-executive director due to the change of job assignment.

During the reporting period, Li Yinquan resigned as the Bank's non-executive director due to the change of job assignment.

In 2015, Guo Xuemeng resigned as the Bank's independent non-executive director due to the change of job assignment, her resignation was effective.

In 2015, Pan Ji, Dong Xiande resigned as the Bank's external supervisor due to the changes of job assignments, their resignations were effective.

During the reporting period, Zhu Genlin, Liu Zhengxi, Xiong Kai resigned as the Bank's supervisors due to the changes of job assignments.

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

	2017	2016
HKD		
0 – 500,000	**15**	15
500,001 – 1,000,000	**5**	5
1,000,001 – 1,500,000	**–**	–
1,500,001 – 2,000,000	**–**	–
2,000,001 – 2,500,000	**–**	2
2,500,001 – 3,000,000	**1**	–
3,000,001 – 3,500,000	**–**	–
3,500,001 – 4,000,000	**–**	–
4,000,001 – 4,500,000	**1**	–
4,500,001 – 5,000,000	**–**	–
5,000,001 – 5,500,000	**–**	–
5,500,001 – 6,000,000	**2**	–
6,000,001 – 6,500,000	**1**	1
6,500,001 – 7,000,000	**–**	1
7,500,001 – 8,000,000	**–**	1
Total	**25**	25

During the year ended 31 December 2017, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 December 2017, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration.

9. Individuals with highest emoluments

Of the five individuals with the highest emoluments for the year ended 31 December 2017, 3 (2016: 3) are directors or supervisors of the Bank whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	**30,014**	26,040
Discretionary bonuses (Note 8)	**–**	12,913
Contributions to defined contribution retirement schemes	**3,736**	3,384
Total	**33,750**	42,337

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

	2017	2016
HKD		
4,500,001 – 5,000,000	**5**	–
5,000,001 – 5,500,000	**–**	5
5,500,001 – 6,000,000	**2**	–
6,000,001 – 6,500,000	**1**	1
6,500,001 – 7,000,000	**–**	1
7,500,001 – 8,000,000	**–**	1

During the year ended 31 December 2017, the five highest paid individuals include eight persons in total as two of them are with the same emoluments and being the second highest paid individuals and four of them are with the same emoluments and being the fifth highest paid individuals. During the year ended 31 December 2016, the five highest paid individuals include eight persons in total as five of them are with the same emoluments and being the fourth highest paid individuals.

10. Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

	2017	2016
Aggregate amount of relevant loans made by the Group outstanding at year end	**50**	64
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	**57**	83

11. Impairment losses

	2017	2016
Loans and advances to customers (Note 19(c))	**60,052**	64,560
Amounts due from banks and other financial institutions (Note 16(b), Note 17(c), Note 18(d))	**121**	507
Investments		
– Available-for-sale financial assets (Note 21(b))	**(51)**	(56)
– Held-to-maturity investments (Note 21(c))	**8**	(10)
– Debt securities classified as receivables (Note 21(d))	**(886)**	(541)
Others	**682**	1,699
Total	**59,926**	66,159

12. Income tax

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

	2017	2016
Current income tax expense		
– Mainland China	35,849	29,114
– Hong Kong	1,129	740
– Overseas	149	170
Subtotal	37,127	30,024
Deferred taxation	(17,085)	(13,441)
Total	20,042	16,583

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

	2017	2016
Profit before taxation	90,680	78,963
Tax at the PRC statutory income tax rate of 25% (2016: 25%)	22,670	19,741
Tax effects of the following items:		
– Effects of non-deductible expenses	811	822
– Effects of non-taxable income	(5,235)	(3,712)
– Effects of different applicable rates of tax prevailing in other jurisdictions	(358)	(268)
– Transfer out of prior deferred tax assets	1,970	–
– Other	184	–
Income tax expense	20,042	16,583

Note:

(i) The applicable income tax rate for the Group's operations in Mainland China is 25% during 2017 (2016: 25%).

(ii) The applicable income tax rate in Hong Kong is 16.5% during 2017 (2016: 16.5%).

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

13. Other comprehensive income

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

	2017			2016		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Available-for-sale financial assets:						
– Net movement in fair value reserve	(7,154)	1,785	(5,369)	(6,109)	1,489	(4,620)
Cash flow hedge:						
– Net movement in hedging reserve	(89)	22	(67)	(347)	87	(260)
Exchange differences	(2,359)	–	(2,359)	1,859	–	1,859
Equity-accounted investees-share of other comprehensive income	44	–	44	(141)	–	(141)
Remeasurement of defined benefit scheme redesigned through reserve	72	(12)	60	37	(6)	31
Other comprehensive income	(9,486)	1,795	(7,691)	(4,701)	1,570	(3,131)

13. Other comprehensive income *(continued)*

(b) Movements relating to components of other comprehensive income are as follows:

	2017	2016
Available-for-sale financial assets:		
Changes in fair value recognised during the year	**(4,868)**	(2,978)
Reclassification adjustments for amounts transferred to profit or loss:		
– On disposal	**(501)**	(1,642)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**(5,369)**	(4,620)
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	**(88)**	(48)
Reclassification adjustment for amounts transferred to profit or loss		
– Realised losses	**21**	(212)
Net movement in the hedging reserve during the period recognised in other comprehensive income	**(67)**	(260)

14. Earnings per share

The calculation of basic earnings per share for the years 2017 and 2016 is based on the net profit attributable to equity shareholders of the Bank and the weighted average number of shares in issue. There is no diluted earnings per share as there are no potential ordinary shares outstanding during the years 2017 and 2016.

	2017	2016
Net profit attributable to equity shareholders of the Bank	**70,150**	62,081
Weighted average number of shares in issue (in million)	**25,220**	25,220
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**2.78**	2.46

Note:

The Bank issued non-cumulative preference share during the year ended 31 December 2017. For the purpose of calculating basic earnings per share, dividends on non-cumulative preference shares declared in respect of the period should be deducted from the amounts attributable to equity shareholders of the Bank.

The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur as at 31 December 2017. Therefore the conversion feature of preference shares has no effect on the diluted earnings per share calculation.

15. Balances with central bank

	2017	2016
Statutory deposit reserve (note (i))	**530,509**	504,959
Surplus deposit reserve (note (ii))	**68,012**	74,365
Fiscal deposits	**1,486**	1,832
Total	**600,007**	581,156

Notes:

(i) Statutory deposit reserve funds are deposited with the PBOC and other central banks outside the Mainland China as required and are not available for the Group's daily operations. The statutory deposit reserve funds of the Bank are calculated at 15% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2017 (2016: 15% and 5% for eligible RMB deposits and foreign currency deposits respectively). Eligible deposits include deposits from government authorities and other organizations, fiscal deposits (other than budgets), retail deposits, corporate deposits, and net credit balances of entrusted business and RMB deposits placed by the financial institutions outside mainland China.

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

16. Balances with banks and other financial institutions

(a) Analysed by nature of counterparties

	2017	2016
Balances in Mainland		
– Banks	49,093	55,135
– Other financial institutions	2,942	1,830
Subtotal	52,035	56,965
Balances outside Mainland		
– Banks	24,937	46,221
– Other financial institutions	62	23
Subtotal	24,999	46,244
Total	77,034	103,209
Less: Impairment allowances		
– Banks	(116)	(193)
– Other financial institutions	–	(3)
Subtotal	(116)	(196)
Total	76,918	103,013

(b) Movements of allowances for impairment losses are as follows:

	2017	2016
As at 1 January	196	126
(Release)/charge for the year (note 11)	(80)	70
As at 31 December	116	196

17. Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

	2017	2016
Placements in Mainland		
– Banks	74,098	26,269
– Other financial institutions	52,747	134,268
Subtotal	126,845	160,537
Placements outside Mainland		
– Banks	27,918	39,730
Total	154,763	200,267
Less: Impairment allowances		
– Banks	(98)	(9)
– Other financial institutions	(37)	(7)
Subtotal	(135)	(16)
Total	154,628	200,251

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

(b) Analysed by residual maturity

	2017	2016
Maturing		
– Within one month (inclusive)	**36,202**	86,934
– Between one month and one year (inclusive)	**116,526**	107,540
– Over one year	**1,900**	5,777
Total	**154,628**	200,251

(c) Movements of allowances for impairment losses are as follows:

	2017	2016
As at 1 January	**16**	51
Charge/(release) for the year (note 11)	**119**	(35)
As at 31 December	**135**	16

18. Amounts held under resale agreements

(a) Analysed by nature of counterparties

	2017	2016
Amounts held under resale agreements in Mainland China		
– Banks	**32,365**	4,666
– Other financial institutions	**220,939**	274,705
Subtotal	**253,304**	279,371
Less: Impairment allowances		
– Banks	**(659)**	(672)
– Other financial institutions	**(95)**	–
Subtotal	**(754)**	(672)
Total	**252,550**	278,699

(b) Analysed by residual maturity

	2017	2016
Maturing		
– Within one month (inclusive)	**249,563**	276,965
– Between one month and one year (inclusive)	**2,987**	1,734
Total	**252,550**	278,699

(c) Analysed by assets types

	2017	2016
Bonds	**245,059**	277,335
Bills	**6,443**	262
Trust beneficiary rights	**–**	52
Asset management schemes	**1,048**	1,050
Total	**252,550**	278,699

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

(d) Movements of allowances for impairment losses are as follows:

	2017	2016
At 1 January	672	200
Charge for the year (note 11)	82	472
At 31 December	754	672

19. Loans and advances to customers

(a) Loans and advances to customers

	2017	2016
Corporate loans and advances	1,663,861	1,566,570
Discounted bills	115,888	154,517
Retail loans and advances	1,785,295	1,540,594
Gross loans and advances to customers	3,565,044	3,261,681
Less: Impairment allowances		
– Individually assessed	(33,931)	(29,230)
– Collectively assessed	(116,501)	(80,802)
Subtotal	(150,432)	(110,032)
Net loans and advances to customers	3,414,612	3,151,649

(b) Analysis of loans and advances to customers

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

Operation in Mainland China

	2017	2016
Manufacturing	251,851	275,710
Wholesale and retail	206,973	214,859
Transportation, storage and postal services	205,022	175,548
Property development	197,782	174,642
Leasing and commercial services	124,408	97,464
Production and supply of electric power, heating power, gas and water	121,824	104,393
Construction	83,433	83,871
Telecommunications, software and IT services	67,997	55,806
Financial concerns	44,381	35,891
Water, environment and public utilities management	43,901	35,096
Mining	39,086	46,397
Others	56,838	62,863
Corporate loans and advances subtotal	1,443,496	1,362,540
Discounted bills	115,888	154,517
Residential mortgage	825,797	720,323
Credit cards	491,179	408,951
Micro-finance loans	310,969	281,653
Others	136,410	109,924
Retail loans and advances subtotal	1,764,355	1,520,851
Gross loans and advances to customers	3,323,739	3,037,908

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

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

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

Operation outside Mainland China

	2017	2016
Property development	63,209	52,922
Financial concerns	47,198	44,489
Transportation, storage and postal services	25,613	18,281
Manufacturing	14,221	21,732
Wholesale and retail	13,934	13,892
Leasing and commercial services	13,444	5,005
Telecommunications, software and IT services	11,371	21,686
Production and supply of electric power, heating power, gas and water	7,065	4,276
Mining	4,211	3,082
Construction	1,937	802
Water, environment and public utilities management	419	147
Others	17,743	17,716
Corporate loans and advances subtotal	220,365	204,030
Residential mortgage	7,613	8,005
Credit cards	204	247
Micro-finance loans	1,747	1,849
Others	11,376	9,642
Retail loans and advances subtotal	20,940	19,743
Gross loans and advances to customers	241,305	223,773

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

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

(c) Movements of allowances for impairment losses are as follows:

	2017			
		Impairment allowances for impaired loans and advances		
	Impairment allowances for loans and advances which are collectively assessed	Which are collectively assessed	Which are individually assessed	Total
At 1 January	70,694	10,108	29,230	110,032
Charge for the year (Note 11)	33,240	9,955	21,255	64,450
Release for the year (Note 11)	(1,005)	(1)	(3,392)	(4,398)
Write-offs	–	(8,601)	(15,682)	(24,283)
Transfer in	–	–	22	22
Unwinding of discount	–	(1)	(560)	(561)
Recoveries of loans and advances previously written off	–	2,324	3,195	5,519
Exchange difference	(212)	–	(137)	(349)
At 31 December	102,717	13,784	33,931	150,432

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

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

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

	2017					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (note (i))	for which impairment losses are collectively assessed (note (ii))	for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collateral held against individually assessed impaired loans and advances (note (iii))
Gross loans and advances to						
– Financial institutions	124,835	–	1	124,836	–	–
– Non-financial institution customers	3,382,823	15,866	41,519	3,440,208	1.67	5,404
Subtotal	3,507,658	15,866	41,520	3,565,044	1.61	5,404
Less:						
Impairment allowances for loans and advances to						
– Financial institutions	(978)	–	(1)	(979)		
– Non-financial institution customers	(101,739)	(13,784)	(33,930)	(149,453)		
Subtotal	(102,717)	(13,784)	(33,931)	(150,432)		
Net loans and advances to						
– Financial institutions	123,857	–	–	123,857		
– Non-financial institution customers	3,281,084	2,082	7,589	3,290,755		
Total	3,404,941	2,082	7,589	3,414,612		

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

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

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

Notes:

(i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis.

(ii) Impaired loans and advances include loans and advances for which objective evidence of impairment has been identified and included impairment losses which are assessed in following ways:

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

– individually.

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

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

(e) Finance leases receivable

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

	2017			2016		
	Total minimum lease receivables	Unearned finance income	Present value of minimum lease receivables	Total minimum lease receivables	Unearned finance income	Present value of minimum lease receivables
Within 1 year (inclusive)	37,172	(5,093)	32,079	36,268	(4,649)	31,619
Over 1 year but within 5 years (inclusive)	76,868	(11,092)	65,776	69,845	(8,545)	61,300
Over 5 years	32,215	(4,787)	27,428	22,373	(1,470)	20,903
Subtotal	146,255	(20,972)	125,283	128,486	(14,664)	113,822
Less: Impairment allowances						
– Individually assessed			(426)			(449)
– Collectively assessed			(2,674)			(2,220)
Net investment in finance lease receivables			122,183			111,153

20. Interest receivable

	2017	2016
Debt securities	15,089	14,275
Loans and advances to customers	10,240	8,657
Others	3,397	3,319
Total	28,726	26,251

21. Investments

	Note	2017	2016
Financial assets at fair value through profit or loss	21(a)	**64,796**	55,972
Derivative financial assets	56(f)	**18,916**	8,688
Available-for-sale financial assets	21(b)	**383,101**	389,138
Held-to-maturity investments	21(c)	**558,218**	477,064
Debt securities classified as receivables	21(d)	**572,241**	528,748
Total		**1,597,272**	1,459,610

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

	Note	2017	2016
Financial assets held for trading	(i)	**55,415**	43,333
Financial assets designated at fair value through profit or loss	(ii)	**9,381**	12,639
Total		**64,796**	55,972

(i) Financial assets held for trading

	2017	2016
Government bonds	**12,286**	28,901
Bonds issued by policy banks	**1,317**	3,074
Bonds issued by commercial banks and other financial institutions	**36,085**	4,643
Other debt securities	**5,083**	4,596
Equity investments	**32**	714
Investments in funds	**401**	109
Long position in precious metal contracts	**211**	1,296
Total	**55,415**	43,333
Bonds		
Listed inside mainland China	**35,837**	36,818
Listed outside mainland China	**9,848**	4,396
Unlisted	**9,086**	–
Investments in equity, funds and precious metal contracts		
Listed inside mainland China	**2**	2
Listed outside mainland China	**60**	643
Unlisted	**582**	1,474

21. Investments *(continued)*

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

(ii) Financial assets designated at fair value through profit or loss

	2017	2016
Government bonds	520	301
Bonds issued by policy banks	2,571	2,948
Bonds issued by commercial banks and other financial institutions	1,576	5,111
Other debt securities	4,714	4,279
Total	9,381	12,639
Classification		
Listed inside mainland China	520	3,355
Listed outside mainland China	4,762	4,651
Unlisted	4,099	4,633

(b) Available-for-sale financial assets

	2017	2016
Government bonds	153,426	132,632
Bonds issued by policy banks	51,715	69,130
Bonds issued by commercial banks and other financial institutions	78,940	101,176
Other debt securities	49,703	40,231
Subtotal	333,784	343,169
Equity investments	3,301	3,378
Investments in funds	46,547	43,236
Subtotal	383,632	389,783
Less: impairment allowances	(531)	(645)
Total	383,101	389,138
Classification		
Bonds		
Listed inside mainland China	231,466	271,916
Listed outside mainland China	44,195	27,083
Unlisted	58,123	44,170
Investments in equity and funds		
Listed inside mainland China	1,905	1,258
Listed outside mainland China	1,057	1,253
Unlisted	46,886	44,103

Movements of allowances for impairment losses are as follows:

	2017	2016
At 1 January	645	667
Charge for the year (note 11)	24	73
Releases for the year (note 11)	(75)	(129)
Write-offs	(35)	(3)
Exchange difference	(28)	37
At 31 December	531	645

21. Investments *(continued)*

(c) Held-to-maturity investments

	2017	2016
Government bonds	**330,120**	266,314
Bonds issued by policy banks	**202,610**	189,165
Bonds issued by commercial banks and other financial institutions	**25,072**	20,180
Other debt securities	**509**	1,495
Subtotal	**558,311**	477,154
Less: impairment allowances	**(93)**	(90)
Total	**558,218**	477,064
Classification		
Listed inside mainland China	**554,936**	473,441
Listed outside mainland China	**2,661**	3,451
Unlisted	**714**	262
Fair value of listed debt securities	**542,523**	484,029

Movements of allowances for impairment losses are as follows:

	2017	2016
At 1 January	**90**	95
Charge/(release) for the year (note 11)	**8**	(10)
Exchange difference	**(5)**	5
At 31 December	**93**	90

21. Investments *(continued)*

(d) Debt securities classified as receivables

	2017	2016
Investment in bonds		
Government bonds	908	784
Bonds issued by commercial banks and other financial institutions	9,428	8,518
Other debt securities	9,817	17,690
Non-standard assets		
Bills	290,215	240,897
Loans and advances to customers	261,213	205,907
Deposit from banks	–	5,896
Wealth management products	1,962	55,216
Creditor's beneficiary rights to other commercial banks	3,000	16
Subtotal	576,543	534,924
Less: impairment allowances	(4,302)	(6,176)
Total	572,241	528,748
Classification		
Inside mainland China	576,505	534,883
Outside mainland China	38	41

Movements of allowances for impairment losses are as follows:

	2017	2016
At 1 January	6,176	1,017
Charge for the year (note 11)	1,341	2,329
Release for the year (note 11)	(2,227)	(2,870)
Write-off for the year	(988)	–
Transfer in	–	5,700
At 31 December	4,302	6,176

22. Particulars of principal subsidiaries of the bank

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under Note 2(d) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities	Economic nature	Legal representative
CMB International Capital Holdings Corporation Limited (note (i))	Hong Kong	HKD4,129	100%	Financial advisory services	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited (note (ii))	Shanghai	RMB6,000	100%	Finance lease	Limited company	Lian Bolin
Wing Lung Bank Limited (note (iii))	Hong Kong	HKD1,161	100%	Banking	Limited company	Tian Huiyu
China Merchants Fund Management Co., Ltd. (note (iv))	Shenzhen	RMB1,310	55%	Asset management	Limited company	Li Hao

Notes:

(i) CMB International Capital Holdings Corporation Limited ("CMBICHC"), formerly known as Jiangnan Finance Company Limited and CMB International Capital Corporation Limited, is the Bank's wholly-owned subsidiary approved by the PBOC through its Yin Fu [1998] No. 405. In 2014, the Bank made an additional capital contribution of HKD750 million in CMBICHC. The capital of CMBICHC increased to HKD1,000 million, and the Bank's shareholding percentage remains unchanged.

The Board of Directors have considered and passed "The Resolution regarding the Capital Increase and Restructuring of CMBICHC" which agreed that the Bank made capital contribution of USD400 million (or its equivalent) to CMBICHC on 28 July 2015. The capital contribution completed on 20 January 2016.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the CBRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008. In 2014, the Bank made an additional capital contribution of RMB2,000 million in CMBFLC. The capital of CMBFLC increased to RMB6,000 million and the Bank's shareholding percentage remains unchanged.

(iii) On 30 September 2008, the Bank acquired a 53.12% equity interests in Wing Lung Bank Limited ("WLB"). WLB became a wholly owned subsidiary of the bank on 15 January 2009. WLB had withdrawn from listing on the HKEx as of 16 January 2009.

(iv) In 2012, the Bank acquired 21.6% equity interests in China Merchants Fund Management Co., Ltd.("CMFM"), its former associate, from ING Asset Management B.V. at a consideration of EUR 63,567,567.57. Following the settlement of the above consideration in cash, the Bank's shareholding in CMFM increased from 33.4% to 55.0% in 2013. As a result, the Bank obtained the control over CMFM, which became the Bank's subsidiary on 28 November 2013. In December 2017, the Bank made an additional capital contribution of RMB605 million in CMFM, and other shareholders of CMFM also make capital contribution of RMB495 million proportionally. The capital of CMFM increased to RMB1,310 million, and the Bank's shareholding percentage remains unchanged.

23. Interest in joint ventures

	2017	2016
Share of net assets	**5,059**	3,630
Share of profits for the year	**995**	292
Share of other comprehensive income (expense) for the year	**44**	(141)

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

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Percentage of ownership of the Bank	Percentage of ownership of the subsidiaries	Principal activity
CIGNA &CMB Life Insurance Company Limited (note(i))	Limited company	Shenzhen	RMB2,800,000	50.00%	50.00%	–	Life insurance business
Merchants Union Consumer Finance Company Limited. (note(ii))	Limited company	Shenzhen	RMB2,859,320	50.00%	15.03%	34.97%	Consumer finance
BC Reinsurance Limited (note (iii))	Limited company	Hong Kong	HKD200,000	21.00%	–	21.00%	Reinsurance business

Notes:

(i) The Group holds 50.00% equity interests in CIGNA & CMB Life Insurance Company Limited ("CIGNA & CMB Life"), and Life Insurance Company of North America ("INA") holds the other 50.00% equity interests in CIGNA & CMB Life. CIGNA & CMB Life is the only joint venture directly held by the Bank. The Bank and INA share the joint venture's profits, risks and losses based on the above proportion of their shareholding. The Bank's investment in CIGNA & CMB Life is accounted as an investment in a joint venture.

(ii) The Bank's subsidiary, WLB, and China United Network Communications Limited ("CUNC"), which is a subsidiary of China Unicom Limited, jointly set up Merchants Union Consumer Finance Company Limited ("MUCFC"). CBRC has approved the operation of MUCFC on 3 March 2015. WLB and CUNC hold 50.00% equity interests in MUCFC respectively and share the risks, profits and losses based on the above proportion of their shareholding. In December 2017, the Group made an additional capital contribution of RMB600 million in CUNC, and other shareholders of CUNC injected capital proportionally. The capital of CUNC increased to RMB2,859 million, and the Bank's shareholding percentage is 15.03%, WLB's shareholding percentage is 34.97%, and the Group's shareholding percentage remains unchanged.

(iii) These entities are jointly controlled by the Bank's subsidiary, WLB with other shareholders, and are strategic partners for WLB to widen the service type to be provided to the customers.

23. Interest in joint ventures *(continued)*

Summarised financial information of the joint ventures which are individually material to the Group is as below:

(i) CIGNA & CMB Life

	Assets	Liabilities	Equity	Revenue	Profit or loss	Other comprehensive income	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2017										
CIGNA & CMB Life	**35,942**	**31,152**	**4,790**	**13,935**	**666**	**66**	**732**	**945**	**31**	**75**
Group's effective interest	**17,971**	**15,576**	**2,395**	**6,968**	**319**	**33**	**352**	**473**	**16**	**38**
2016										
CIGNA & CMB Life	27,134	23,048	4,086	12,941	239	(254)	(15)	603	16	(25)
Group's effective interest	13,567	11,524	2,043	6,471	119	(142)	(23)	301	8	(12)

(ii) MUCFC:

	Assets	Liabilities	Equity	Revenue	Profit or loss	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2017									
MUCFC	**46,980**	**42,339**	**4,641**	**4,163**	**1,189**	**1,189**	**812**	**8**	**383**
Group's effective interest	**23,490**	**21,170**	**2,320**	**2,082**	**595**	**595**	**406**	**4**	**192**
2016									
MUCFC	18,703	16,241	2,462	1,533	324	324	429	4	83
Group's effective interest	9,352	8,121	1,231	767	162	162	215	2	41

Summarised financial information of the joint ventures that are not individually material to the Group:

	Profit or loss	Other comprehensive income	Total comprehensive income
2017			
Others	**398**	**53**	**451**
Group's effective interest	**81**	**11**	**92**
2016			
Others	158	7	165
Group's effective interest	11	1	12

24. Interest in associates

	2017	2016
Share of net assets	18	80
Goodwill	2	2
Total	20	82
Share of profits for the year	3	29

The following list contains the information as of 31 December 2017 of associates, which are unlisted corporate entities and are not individually material to the Group:

	Profit or loss	Other comprehensive income	Total comprehensive income
2017			
Others	8	–	8
Group's effective interest	3	–	3
2016			
Others	63	–	63
Group's effective interest	29	–	29

25. Property and equipment

	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts, vessels and professional equipments	Motor vehicles and others	Total
Cost:							
At 1 January 2017	22,654	3,797	9,167	6,269	19,054	6,410	67,351
Additions	113	1,516	1,465	402	8,399	410	12,305
Reclassification and transfers	2,402	(2,831)	(4)	197	–	13	(223)
Disposals/(write-offs)	(91)	–	(403)	(7)	–	(411)	(912)
Exchange difference	(231)	–	(60)	(32)	(1,033)	(6)	(1,362)
At 31 December 2017	24,847	2,482	10,165	6,829	26,420	6,416	77,159
Accumulated depreciation:							
At 1 January 2017	7,104	–	6,810	3,684	909	4,987	23,494
Depreciation	1,158	–	1,280	656	1,118	703	4,915
Reclassification and transfers	27	–	–	(13)	–	–	14
Disposals/(write-offs)	(49)	–	(392)	(6)	–	(400)	(847)
Exchange difference	(106)	–	(25)	(16)	(80)	(2)	(229)
At 31 December 2017	8,134	–	7,673	4,305	1,947	5,288	27,347
Net book value:							
At 31 December 2017	16,713	2,482	2,492	2,524	24,473	1,128	49,812
At 1 January 2017	15,550	3,797	2,357	2,585	18,145	1,423	43,857

25. Property and equipment *(continued)*

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

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

(b) As at 31 December 2017, the process of obtaining the registration license for the Group's properties with an aggregate net carrying value of RMB4,080 million (2016: RMB1,762 million) was still in progress.

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

26. Investment properties

	2017	2016
Cost:		
At 1 January	2,884	2,694
Transfers in	109	83
Disposals/write-offs	–	(3)
Exchange difference	(138)	110
At 31 December	2,855	2,884
Accumulated depreciation:		
At 1 January	1,183	986
Depreciation	147	137
Transfers (out)/in	(27)	14
Disposals/write-offs	–	(2)
Exchange difference	(60)	48
At 31 December	1,243	1,183
Net book value:		
At 31 December	1,612	1,701
At 1 January	1,701	1,708

As at 31 December 2017, the Group confirms that there is no need for investment properties to charge impairment losses (2016:0).

Investment properties of the Group mainly represent the leasing properties of WLB and the portion of the Bank's properties in Shenzhen, Zhengzhou, Qingdao, Hefei that have been leased out under operating leases or are available for lease. The fair value of the Group's investment properties are assessed by the independent appraiser A.G.Wilkinson& Associates, and the fair value is determined by the method of capitalization of net rental income. There has been no change to the valuation methodology during the year. As at 31 December 2017, the fair value of these properties was RMB3,721 million (2016: RMB3,779 million). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	2017	2016
Within 1 year (inclusive)	216	310
1 year to 5 years (inclusive)	140	264
Over 5 years	2	12
Total	358	586

The fair value hierarchy of Investment properties of the Group are listed as below:

	Level 1	Level 2	Level 3	Fair Value as at 31 December 2017
Held in Mainland China	–	–	1,033	1,033
Held overseas	–	–	2,688	2,688
Total	–	–	3,721	3,721

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

27. Intangible assets

	Land use rights	Software and Others	Core deposits	Total
Cost/valuation:				
At 1 January 2017	1,593	3,886	1,178	6,657
Additions	2,975	1,070	–	4,045
Transfers/disposals	79	(30)	–	49
Exchange difference	(13)	(3)	(83)	(99)
At 31 December 2017	4,634	4,923	1,095	10,652
Amortisation:				
At 1 January 2017	291	2,108	344	2,743
Additions	138	536	40	714
Transfers/disposals	(1)	(29)	–	(30)
Exchange difference	(2)	(2)	(26)	(30)
At 31 December 2017	426	2,613	358	3,397
Net book value:				
At 31 December 2017	4,208	2,310	737	7,255
At 1 January 2017	1,302	1,778	834	3,914

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

28. Goodwill

	As at 1 January 2017	Addition in the year	Release in the year	As at 31 December 2017	Impairment loss	Net value at 31 December 2017
WLB (note (i))	10,177	–	–	10,177	(579)	9,598
CMFM (note (ii))	355	–	–	355	–	355
CMBICHC (note (iii))	1	–	–	1	–	1
Total	10,533	–	–	10,533	(579)	9,954

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interests in WLB. On the acquisition date, the fair value of WLB's identifiable net assets was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million being the excess of acquisition cost over the fair value of the identifiable net assets was recognised as goodwill. The details about WLB are set out in Note 22.

(ii) On 28 November 2013, the Bank acquired a 55.00% equity interests in CMFM. On the acquisition date, the fair value of CMFM's identifiable net assets was RMB752 million of which the Bank accounted for RMB414 million. A sum of RMB355 million being the excess of acquisition cost 769 million over the fair value of the identifiable net assets was recognised as goodwill. The details about CMFM are set out in Note 22.

(iii) On 1 April 2015, CMBICHC acquired a 100% equity interests in Zhaoyin Internet Technology (Shenzhen) Corporation Limited ("Zhaoyin Internet"). On the acquisition date, the fair value of Zhaoyin Internet's identifiable net assets was RMB3 million. A sum of RMB1 million being the excess of acquisition cost over the fair value of the identifiable net assets was recognised as goodwill. Zhaoyin Internet's principal activities include development and sale of computer software and hardware, sale of communication equipment and office automation equipment, advisory service of computer technology and information.

Impairment test for CGU containing goodwill

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

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

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of WLB and CMFM. A pre-tax discount rate of 9% and 12% (2016: 11% and 14%) was used. The Group believes any reasonably possible further change in the key assumptions on which recoverable amount are based would not cause the carrying amounts to exceed their recoverable amounts.

29. Deferred tax assets, deferred tax liabilities

	2017	2016
Deferred tax assets	**50,120**	31,010
Deferred tax liabilities	**(1,070)**	(897)
Net amount	**49,050**	30,113

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

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

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

	2017		2016	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advances to customers and other assets	166,590	41,616	112,316	28,096
Investment revaluation reserve	5,381	1,344	(1,718)	(430)
Salary and welfare payable	15,535	3,884	10,501	2,625
Others	13,841	3,276	2,891	719
Total	201,347	50,120	123,990	31,010
Deferred tax liabilities				
Impairment allowances on loans and advances to customers and other assets	189	31	229	38
Investment revaluation reserve	(247)	(60)	(238)	(55)
Others	(6,809)	(1,041)	(5,332)	(880)
Total	(6,867)	(1,070)	(5,341)	(897)

(b) Movements of deferred tax are as follows:

	Impairment allowances on loans and advances to customers and other assets	Investment revaluation reserve	Salary and welfare payable	Others	Total
At 1 January 2017	28,134	(485)	2,625	(161)	30,113
Recognised in profit or loss	13,518	–	1,260	2,307	17,085
Recognised in other comprehensive Income	–	1,773	–	22	1,795
Exchange difference	(5)	(4)	(1)	67	57
At 31 December 2017	41,647	1,284	3,884	2,235	49,050

	Impairment allowances on loans and advances to customers and other assets	Investment revaluation reserve	Salary and welfare payable	Others	Total
At 1 January 2016	15,825	(1,966)	2,418	(1,124)	15,153
Recognised in profit or loss	12,305	–	207	929	13,441
Recognised in other comprehensive Income	–	1,483	–	87	1,570
Exchange difference	4	(2)	–	(53)	(51)
At 31 December 2016	28,134	(485)	2,625	(161)	30,113

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

30. Other assets

	2017	2016
Amounts pending for settlement	7,818	14,260
Prepaid lease payments	1,109	1,000
Repossessed assets (note (a))	868	864
Guarantee deposits	607	437
Recoverable from reinsurers	207	219
Prepayment for lease improvement and other miscellaneous items	170	453
Premium receivables	88	102
Post-employment benefits		
– Defined benefit plan (Note 38(b))	109	53
Assets held for sale (Note (i))	124	–
Others	12,272	10,792
Total	23,372	28,180

Note (i): The Group has signed an agreement with a third party to dispose its entire interest in Hong Kong Life Insurance Limited, a joint venture of the Group and plans to complete the disposal within 12 months. Accordingly, the interest in this joint venture was classified as assets held for sale as at 31 December 2017.

(a) Repossessed assets

	2017	2016
Residential properties	1,026	1,098
Others	488	474
Total	1,514	1,572
Less: impairment allowances	(646)	(708)
Net repossessed assets	868	864

Note:

(i) In 2017, the Group has disposed of repossessed assets with a total cost of RMB73 million (2016: RMB481 million).

(ii) The Group plans to dispose of the repossessed assets by auction, bid and transfer.

31. Deposits from banks and other financial institutions

	2017	2016
In Mainland China		
– Banks	72,324	80,612
– Other financial institutions	359,598	470,062
Subtotal	431,922	550,674
Outside Mainland China		
– Banks	7,185	4,933
– Other financial institutions	11	–
Subtotal	7,196	4,933
Total	439,118	555,607

32. Placements from banks and other financial institutions

	2017	2016
In Mainland China		
– Banks	122,305	173,218
– Other financial institutions	88,862	40,809
Subtotal	211,167	214,027
Outside Mainland China		
– Banks	61,565	34,849
– Other financial institutions	2	–
Subtotal	61,567	34,849
Total	272,734	248,876

33. Amounts sold under repurchase agreements

(a) Analysed by nature of counterparties

	2017	2016
In Mainland China		
– Banks	114,955	151,323
– Other financial institutions	5,468	10,817
Subtotal	120,423	162,140
Outside Mainland China		
– Banks	5,162	802
– Other financial institutions	35	–
Subtotal	5,197	802
Total	125,620	162,942

(b) Analysed by assets type

	2017	2016
Debt securities		
– PRC government bonds	31,900	10,581
– Bonds issued by policy banks	48,273	53,123
– Bonds issued by commercial banks and other financial institutions	4,470	12,930
– Other debt securities	928	295
Subtotal	85,571	76,929
Discounted bills	40,049	86,013
Total	125,620	162,942

34. Deposits from customers

	2017	2016
Corporate customers		
– Demand deposits	1,581,802	1,441,225
– Time deposits	1,144,021	1,076,266
Subtotal	2,725,823	2,517,491
Retail customers		
– Demand deposits	972,291	951,615
– Time deposits	366,231	332,943
Subtotal	1,338,522	1,284,558
Total	4,064,345	3,802,049

Customer deposits include deposits for guarantees are as follows:

	2017	2016
Guarantee for acceptance bills	78,123	93,670
Guarantee for loans	27,931	47,426
Guarantee for issuing letters of credit	19,035	26,235
Deposit for letters of guarantee	44,429	47,405
Others	20,417	26,531
Total	189,935	241,267

35. Interest payable

	2017	2016
Issued debt securities	1,820	1,413
Customer deposits and others	34,681	34,833
Total	36,501	36,246

36. Financial liabilities at fair value through profit or loss

	Note	2017	2016
Financial liabilities held for trading	(i)	11,389	7,530
Financial liabilities designated at fair value through profit or loss	(ii)	15,230	16,046
Total		26,619	23,576

(i) Financial liabilities held for trading

	2017	2016
Precious metal relevant financial liabilities	11,325	7,530
Short selling securities	64	–
Total	11,389	7,530

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

	2017	2016
In Mainland China		
– Precious metal contracts with other banks	7,688	3,498
– Others	118	15
Outside Mainland China		
– Certificates of deposit issued	3,185	3,595
– Debt securities issued	4,239	8,938
Total	15,230	16,046

As at the end of reporting period, the difference between the fair value of the Group's financial liabilities designated at fair value through profit or loss and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year ended 31 December 2017 and 2016 and as at 31 December 2017 and 2016.

37. Debt securities issued

	Note	2017	2016
Subordinated notes issued	(a)	33,977	31,356
Long-term debt securities issued	(b)	63,376	40,959
Negotiable interbank certificates of deposit		178,189	188,248
Certificates of deposit issued		20,935	14,519
Total		296,477	275,082

37. Debt securities issued *(continued)*

(a) Subordinated notes issued

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

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment for the year (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (notes(i))	180 months	4 Sep 2008	5.90 (for the first ten years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	RMB7,000	6,997	–	109	–	7,106
Fixed rate bond (notes(ii))	180 months	28 Dec 2012	5.20	RMB11,700	11,689	–	–	–	11,689
Fixed rate bond (notes(iii))	120 months	18 Apr 2014	6.40	RMB11,300	11,288	–	1	–	11,289
Total					29,974	–	110	–	30,084

Notes:

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

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

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

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

37. Debt securities issued *(continued)*

(a) Subordinated notes issued *(continued)*

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

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment for the year (RMB in million)	Exchange rate fluctuation (RMB in million)	Ending balance (RMB in million)
Fixed to floating rate notes	120 months	6 Nov,2012	3.50 (for the first 5 years); T*+2.80 (from 6 year onwards, if the notes are not called by the Bank)	USD200	1,382	–	1	–	(90)	1,293
Fixed to floating rate notes	120 months	22 Nov,2017	3.75 (for the first 5 years); T*+1.75% (from 6 year onwards, if the notes are not called by the Bank)	USD400	–	2,633	14	–	(47)	2,600
Total					1,382	2,633	15	–	(137)	3,893

* T represents the 5 years US Treasury rate.

(b) Long-term debt securities

As at the end of the reporting period, long-term debt securities issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment for the year (RMB in million)	Exchange rate fluctuation (RMB in million)	Ending balance (RMB in million)
12 CMB 01 (note (i))	60 months	Mar 14, 2012	4.15	RMB6,500	6,499	–	–	(6,499)	–	–
12 CMB 02 (note (i))	60 months	Mar 14, 2012	R*+0.95	RMB13,500	13,499	–	–	(13,499)	–	–
14 CMB 03 (note (ii))	36 months	Apr 10, 2014	4.10	RMB1,000	1,000	–	–	(1,000)	–	–
Fixed rate bond (notes (iii))	36 months	May 22, 2017	4.20	RMB18,000	–	17,978	1	–	–	17,979
Medium term note(note(iv))	36 months	June 12, 2017	3M Libor+0.825	USD800	–	5,424	1	–	(219)	5,206
Fixed rate bond (notes (iii))	36 months	Sep 14, 2017	4.30	RMB12,000	–	11,984	1	–	–	11,985
Total					20,998	35,386	3	(20,998)	(219)	35,170

* R represents the 1-year fixed deposit rate ("Rate") promulgated by the PBOC. The Rate on 14 March 2012 was 3.50%, the Rate on 31 December 2017 and 31 December 2016 was 1.50%.

Note:

(i) The CBRC and POBC approve the Bank's issuance of RMB20,000 million long-term debt securities on 12 December 2011 (Yin Jian Fu [2011] No.557 entitled "The approval of the issuance of Long-term Debt Securities by China Merchants Bank") and on 16 January 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.2 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB6,500 million fixed rate debt and RMB13,500 million floating rate debt on 14 March 2012 on the National Interbank Bond Market, and debt securities have already matured on 14 March 2017.

(ii) The POBC and National Development and Reform Commission approved the Bank's issuance of RMB1,000 million financial bonds on 13 February 2014 (Yin Han [2014] No.35 entitled "The Approval of the issuance of Renminbi debt securities in Hong Kong by China Merchants Bank") and on 11 March 2014 (Fa Gai Wei Zi [2014] No.412 entitled "The Approval of Issuance of Renminbi debt securities in Hong Kong by China Merchants Bank"). The Bank issued RMB1,000 million financial bonds on 10 April 2014 in Hong Kong, and debt securities have already matured on 10 April 2017.

(iii) The CBRC and PBOC approved the Bank's issuance of RMB30,000 million financial bonds on 1 April 2017 (Yin Jian Fu [2017] No.114 entitled "The Approval of Financial Bond by China Merchants Bank") and on 5 May 2017 (Yin Shi Chang Xu Zhun Yu Zi [2017] No.74 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB18,000 million and RMB12,000 million fixed rate debt on 22 May 2017 and 14 September 2017 respectively on the National Interbank Bond Market.

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

37. Debt securities issued *(continued)*

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

As at the end of the reporting period, long-term debt securities issued by CMBFLC were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (in million)	Beginning balance (RMB in million)	Issue during the year (RMB in million)	Discount or premium amortisation (RMB in million)	Repayment for the period (RMB in million)	Exchange rate fluctuation (RMB in million)	Ending balance (RMB in million)
Fixed rate bond (note (i))	60 months	26 Jun 2013	5.08	RMB1,000	1,000	–	(4)	–	–	996
Fixed rate bond (note (i))	60 months	24 Jul 2013	4.98	RMB1,000	1,000	–	(4)	–	–	996
Fixed rate bond (note (ii))	60 months	11 Aug 2014	3.25	USD500	3,471	–	(2)	–	(201)	3,268
Fixed rate bond (note (iii))	36 months	7 Dec 2015	3.75	RMB200	200	–	–	–	–	200
Fixed rate bond (note (iv))	36 months	11 Mar 2016	3.27	RMB3,800	3,800	–	(5)	–	–	3,795
Leased asset backed securities (note v)	74.5 months	5 May 2016	2.98/3.09/R-1.35**	RMB4,110	2,227	–	–	(1,974)	–	253
Fixed rate bond (note (vi))	36 months	29 Nov 2016	2.63	USD300	2,078	–	(7)	–	(115)	1,956
Fixed rate bond (note (vi))	60 months	29 Nov 2016	3.25	USD900	6,244	–	(25)	–	(357)	5,862
Leased asset backed securities (note (vii))	31 months	21 Feb 2017	4.3/4.5/4.73	RMB4,930	–	4,930	–	(2,744)	–	2,186
Fixed rate bond (note (viii))	36 months	15 Mar 2017	4.50	RMB4,000	–	4,000	(12)	–	–	3,988
Fixed rate bond (note (viii))	36 months	5 Jul 2017	4.80	RMB1,500	–	1,500	(4)	–	–	1,496
Fixed rate bond (note (viii))	36 months	20 Jul 2017	4.89	RMB2,500	–	2,500	(6)	–	–	2,494
Fixed rate bond (note (viii))	36 months	3 Aug 2017	4.60	RMB2,000	–	2,000	(5)	–	–	1,995
Total					20,020	14,930	(74)	(4,718)	(673)	29,485

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

Note:

(i) As approved by CBRC under its official approval on the issuance of financial bonds by CMBFLC under ref. Yin Jian Fu [2012] No.758 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2013] No.33, CMBFLC issued the first tranche in 2013 of RMB2,000 million financial bonds on 26 June 2013 and the second tranche in 2013 of RMB2,000 million financial bonds on 24 July 2013. The Bank holds financial bonds issued by CMBFLC amounted to RMB10 million as of 31 December 2016. CMBFLC redeemed long-term bonds amounting to RMB1,000 million on 27 June 2016, and amounting to RMB1,000 million on 25 July 2016. The Bank holds financial bonds issued by CMBFLC amounted to RMB382 million as of 31 December 2017 (31 December 2016: RMB10 million).

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

(iii) As approved by CBRC Shanghai office under its approval on the Issuance of Financial Bonds by CMBFLC under ref. Hu Yin Jian Fu [2015] No.551 and PBOC under its Decision on the Grant of Administrative Permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2015] No.276, CMBFLC issued the first tranche of 2015 of RMB200 million financial bonds on 7 December 2015.

(iv) As approved by CBRC Shanghai office under its approval on the Issuance of financial bonds by CMBFLC under ref. Hu Yin Jian Fu [2015] No.551 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2015] No.276, CMBFLC issued the first tranche of 2016 of RMB3,800 million financial bonds. This 3- year fixed rate bond pays principal on maturity date. The Bank holds financial bonds issued by CMBFLC amounted to RMB200 million as of 31 December 2017(31 December 2016: 0).

(v) According to decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2016] No.65 and notification on record approval on the issuance of leased asset backed securities by CMBFLC approved by The China Banking Regulatory Commission Innovation Supervision Department, CMBFLC issued the first tranche of 2016 of RMB4,855 million finance leases receivable backed securities on 5 May 2016 in the National Interbank Bond Market. The sponsor CMBIL held the amount of RMB745 million during the year ended 31 December 2016 and the year ended 31 December 2017 respectively. CMBFLC redeemed RMB1,364 million and RMB519 million finance leases receivable backed securities on 29 July 2016 and 28 October 2016 respectively. CMBFLC redeemed RMB1,974 million finance leases receivable backed securities in 2017.

37. Debt securities issued *(continued)*

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

Note: *(continued)*:

(vi) On 29 Nov 2016, CMBIL subsidiary issued USD300 million guaranteed notes due 2019 with annual interest rate of 2.625% and USD900 million guaranteed notes due 2021 with annual interest rate of 3.25% on the HKEx. The Bank held Financial Bonds issued by CMBIL amounted to USD30 million as at 31 December 2017(31 December 2016: USD7 million).

(vii) As approved by PBOC under its approval on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2016] No.215 and CBRC Innovation Supervision Department under its Notification on Record Approval on The Issuance of Leased Asset Backed Securities by CMBFLC, CMBFLC issued the first tranche of 2017 of RMB5,636 million leased asset backed securities on 21 February 2017 in the National Interbank Bond Market. RMB706 million is held by CMBFLC. CMBFLC redeemed RMB2,744 million finance leases receivable backed securities in 2017.

(viii) As approved by CBRC Shanghai office under its approval on Issuance of Financial Bonds by CMBFLC under ref. Hu Yin Jian Fu [2016] No.501 and PBOC under its decision on the grant of administrative permission under ref. Yin Shi Chang Xu Zhun Yu Zi [20178] No.9:

1. CMBFLC issued the first tranche of financial bond on 15 March 2017 amounting to RMB4,000 million. This fixed rate bond pays annual interest, and matures in 3 years.

2. CMBFLC issued the second tranche of financial bond on 5 July 2017 amounting to RMB1,500 million. This fixed rate bond pays annual interest, and matures in 3 years. The Bank holds financial bonds issued by CMBFLC amounted to RMB300 million as of 31 December 2017.

3. CMBFLC issued the third tranche of financial bond on 20 July 2017 amounting to RMB2,500 million. This fixed rate bond pays annual interest, and matures in 3 years. The Bank holds financial bonds issued by CMBFLC amounted to RMB200 million as of 31 December 2017.

4. CMBFLC issued the fourth tranche of financial bond on 3 August 2017 amounting to RMB2,000 million. This fixed rate bond pays annual interest, and matures in 3 years.

38. Staff welfare scheme

(a) Salaries and welfare payable

	2017			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	6,319	32,691	(31,254)	7,756
Post-employment benefits				
– defined contribution plans (ii)	684	2,791	(3,247)	228
Other long-term employee benefits (iii)	45	46	(55)	36
Total	7,048	35,528	(34,556)	8,020

	2016			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Short-term employee benefits (i)	6,254	28,708	(28,643)	6,319
Post-employment benefits				
– defined contribution plans (ii)	232	3,093	(2,641)	684
Other long-term employee benefits (iii)	38	7	–	45
Total	6,524	31,808	(31,284)	7,048

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(i) Short-term employee benefits

	2017			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	4,554	24,295	(22,991)	5,858
Welfare expense	62	3,337	(3,337)	62
Social insurance				
– Medical insurance	3	1,791	(1,752)	42
– Injury insurance	2	23	(22)	3
– Maternity insurance	5	67	(68)	4
Housing reserve	147	2,085	(2,061)	171
Labour union and employee education expenses	1,546	1,093	(1,023)	1,616
Total	6,319	32,691	(31,254)	7,756

	2016			
	Beginning balance	Charge for the year	Payment/ transfers in the year	Ending balance
Salary and bonus	4,576	21,051	(21,073)	4,554
Welfare expense	39	2,812	(2,789)	62
Social insurance				
– Medical insurance	80	1,863	(1,940)	3
– Injury insurance	3	25	(26)	2
– Maternity insurance	4	57	(56)	5
Housing reserve	148	1,814	(1,815)	147
Labour union and employee education expenses	1,404	1,086	(944)	1,546
Total	6,254	28,708	(28,643)	6,319

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(ii) Post-employment benefits-defined contribution plan

	2017			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Basic retirement security	62	1,884	(1,885)	61
Supplementary pension	610	851	(1,312)	149
Unemployment insurance	12	56	(50)	18
Total	684	2,791	(3,247)	228

	2016			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Basic retirement security	79	1,659	(1,676)	62
Supplementary pension	141	1,351	(882)	610
Unemployment insurance	12	83	(83)	12
Total	232	3,093	(2,641)	684

Defined contribution pension schemes

In accordance with the regulations in the PRC, the Group participates in statutory pension schemes organised by the municipal and provincial governments for its employees (endowment insurance). During the year ended 31 December 2017, the Group's contributions to the schemes are determined by local governments and vary at a range of 12% to 20% (2016: 12% to 20%) of the staff salaries.

In addition to the above statutory pension schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance) in accordance with relevant annuity policies for corporate entities in the PRC. During the year ended 31 December 2017, the Group's annual contributions to this plan are determined based on 0% to 8.33% of the staff salaries and bonuses (2016: 0% to 8.33%).

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits

	2017			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Cash settled share-based transactions	45	46	(55)	36

	2016			
	Beginning balance	Charge for the year	Payment/ Transfers in the year	Ending balance
Cash settled share-based transactions	38	7	–	45

As at 31 December 2017, the Group has offered 10 phases of H share Appreciation Rights Scheme to its senior management ("the Scheme"). The share appreciation rights of the Scheme vest after 2 years or 3 years from the grant date and are then exercisable within a period of 7 years or 8 years. Each of the share appreciation right is lined to one H-share.

(1) All share appreciation rights shall be settled in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised share appreciation rights at the end of 2017 (in millions)	Exercise conditions	Contract period of share appreciation rights
Share appreciation rights granted on 4 May 2012 (Phase V)	0.403	3 years after the grant date	10 years
Share appreciation rights granted on 22 May 2013 (Phase VI)	0.499	3 years after the grant date	10 years
Share appreciation rights granted on 7 Jul 2014 (Phase VII)	1.208	3 years after the grant date	10 years
Share appreciation rights granted on 22 Jul 2015 (Phase VIII)	1.740	3 years after the grant date	10 years
Share appreciation rights granted on 24 Aug 2016 (Phase IX)	1.590	3 years after the grant date	10 years
Share appreciation rights granted on 25 Aug 2017 (Phase X)	1.800	3 years after the grant date	10 years

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(2) The number and weighted average exercise prices of share appreciation rights are as follows:

	2017		2016	
	Weighted average exercise price (HKD)	Number of share appreciation rights (in million)	Weighted average exercise price (HKD)	Number of share appreciation rights (in million)
Outstanding as at the beginning of the year	15.81	11.44	14.58	8.80
Granted during the year	28.60	1.80	19.68	3.96
Exercised during this year	13.43	(3.30)	–	–
Forfeited during the year	14.26	(2.70)	13.82	(1.32)
Outstanding at the end of the year	19.32	7.24	15.81	11.44
Exercisable at the end of the year	12.05	0.53	14.23	4.07

The share appreciation rights outstanding at 31 December 2017 had a weighted average exercise price of HKD19.32 (2016: HKD15.81) and a weighted average remaining contractual life of 7.81 years (2016: 6.21 years).

Pursuant to the requirements set out in the Scheme, if there are any dividends distributed, capital reserve converted into shares, share split or dilution, adjustments to the exercise price will be applied.

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(3) Fair value of share appreciation rights and assumptions

The fair value of services received in return for share appreciation rights granted are measured by reference to the fair value of share appreciation rights granted. The estimate of the fair value of the share appreciation rights granted is measured based on the Black-Scholes model. The contractual lives of the rights are used as an input of the model.

	2017					
	Phase V	Phase VI	Phase VII	Phase VIII	Phase IX	Phase X
Fair value at measurement date (in RMB)	12.19	11.14	10.51	6.71	6.98	4.06
Share price (in HKD)	30.55	30.55	30.55	30.55	30.55	30.55
Exercise price (in HKD)	11.71	12.28	12.34	19.49	18.06	28.60
Expected volatility	25.68%	25.68%	25.68%	25.68%	25.68%	25.68%
Share appreciation rights life (year)	4.33	5.42	6.50	7.58	8.67	9.67
Expected dividends rate	4.29%	4.29%	4.29%	4.29%	4.29%	4.29%
Risk-free interest rate	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%

	2016								
	Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI	Phase VII	Phase VIII	Phase IX
Fair value at measurement date (in RMB)	0.34	10.93	3.03	3.61	4.48	4.20	4.11	2.45	2.71
Share price (in HKD)	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Exercise price (in HKD)	23.19	4.65	15.88	14.75	12.55	13.12	13.18	20.33	18.90
Expected volatility	28.32%	28.32%	28.32%	28.32%	28.32%	28.32%	28.32%	28.32%	28.32%
Share appreciation rights life (year)	0.83	1.83	2.83	4.17	5.33	6.42	7.50	8.58	9.67
Expected dividends rate	4%	4%	4%	4%	4%	4%	4%	4%	4%
Risk-free interest rate	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%	1.43%

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share appreciation rights) and adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share appreciation rights were granted under service conditions. The conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share appreciation rights granted.

38. Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(4) The number of share appreciation rights granted to members of senior management:

	2017							
	Phase V (in thousands)	Phase VI (in thousands)	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Phase X (in thousands)	Exercised (in thousands)	Total (in thousands)
Ma Wei Hua	307	307	–	–	–	–	1,269	614
Li Hao	50	100	180	240	270	300	991	1,140
Tang Zhi Hong	46	92	158	210	210	240	947	956
Tian Hui Yu	–	–	300	300	300	330	–	1,230
Liu Jian Jun	–	–	158	210	210	240	52	818
Wang Liang	–	–	150	210	210	240	–	810
Lian Bo Lin	–	–	113	180	180	210	37	683
Xu Shi Qing	–	–	150	180	–	–	–	330
Xiong Liang Jun	–	–	–	210	210	240	–	660
Total	403	499	1,209	1,740	1,590	1,800	3,296	7,241

	2016										
	Phase I (in thousands)	Phase II (in thousands)	Phase III (in thousands)	Phase IV (in thousands)	Phase V (in thousands)	Phase VI (in thousands)	Phase VII (in thousands)	Phase VIII (in thousands)	Phase IX (in thousands)	Exercised (in thousands)	Total (in thousands)
Ma Wei Hua	318	318	326	307	307	307	–	–	–	–	1,883
Li Hao	159	159	163	200	200	200	240	240	270	–	1,831
Tang Zhi Hong	159	159	163	184	184	184	210	210	210	–	1,663
Ding Wei	127	159	163	184	184	184	210	210	210	–	1,631
Wang Qing Bin	–	–	131	153	184	184	210	210	–	–	1,072
Tian Hui Yu	–	–	–	–	–	–	300	300	300	–	900
Liu Jian Jun	–	–	–	–	–	–	210	210	210	–	630
Wang Liang	–	–	–	–	–	–	150	210	210	–	570
Lian Bo Lin	–	–	–	–	–	–	150	180	180	–	510
Xu Shi Qing	–	–	–	–	–	–	150	180	–	–	330
Xiong Liang Jun	–	–	–	–	–	–	–	210	210	–	420
Total	763	795	946	1,028	1,059	1,059	1,830	2,160	1,800	–	11,440

Note: In 2017, senior management had exercised 3 million shares of appreciation rights and the weighted average exercise price is HKD13.43. (2016: Nil).

38. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan

The Group's subsidiary WLB operates a defined benefit plan ("the Plan") for the staff, which includes a defined benefit scheme and a defined benefit pension section. The contributions of the Plan are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Plan. The Plan provides benefits based on members' final salary. The costs are solely funded by WLB.

The latest actuarial valuation of the Plan was performed in accordance with IAS 19 issued by the IASB as at 1 February 2018 by Willis Towers Watson Limited, a professional actuarial firm. The present values of the defined benefit obligation and current service cost of the Plan are calculated based on the projected unit credit method. At the valuation date, the Plan had a funding level of 138% (2016: 117%).

The amounts recognised in the statement of financial position as at 31 December 2017 are analysed as follows:

	2017	2016
Fair value of the Plan assets	**394**	373
Present value of the funded defined benefit obligation	**(285)**	(320)
Net asset recognised in the statement of financial position	**109**	53

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the Plan is expected to be paid in 2017.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2017 and 2016.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	2017	2016
Current service cost	**(11)**	(13)
Net interest income	**1**	–
Net expense for the year included in retirement benefit costs	**(10)**	(13)

The actual gains on the Plan assets for the year ended 31 December 2017 was RMB78 million (2016: actual gains was RMB10 million).

38. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The movements in the defined benefit obligation during the year are as follows:

	2017	2016
Present value of obligation at 1 January	**320**	340
Current service cost	**11**	13
Interest cost	**5**	5
Actual benefits paid	**(28)**	(29)
Actuarial profit or losses due to liability experience	**3**	(1)
Actuarial profit or losses due to financial assumption changes	**(3)**	(21)
Actuarial gain or losses due to demographic assumption changes	**–**	(8)
Exchange difference	**(23)**	21
Actual obligation at 31 December	**285**	320

The movements in the fair value of the Plan assets during the year are as follows:

	2017	2016
Fair value of the Plan assets at 1 January	**373**	367
Interest income	**6**	5
Expected return on the Plan assets other than interest profit or losses	**72**	5
Actual benefits paid	**(28)**	(29)
Exchange difference	**(29)**	25
Fair value of the Plan assets at 31 December	**394**	373

The major categories of the Plan assets are as follows:

	2017		2016	
	Amount	%	Amount	%
Equities	**267**	**67.8**	228	61.1
Bonds	**64**	**16.2**	67	18.0
Cash	**63**	**16.0**	78	20.9
Total	**394**	**100**	373	100

No deposit with the Bank was included in the amount of the Plan assets (2016: Nil).

38. Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The principal actuarial assumptions adopted in the valuation are as follows:

	2017	2016
Discount rate		
– Defined benefit scheme	1.7	1.8
– Defined benefit pension scheme	1.3	1.1
Long-term average rate of salary increase for the Plan	4.3	4.5
Pension increase rate for the defined benefit pension plan	–	2.0

As at 31 December 2016 and 2017, there is no significant change of the amount in the liabilities of the retirement benefit plan due to the above mentioned actuarial assumptions.

(c) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the net profit for the year as approved by the Board of Directors and accounted as operating expenses.

39. Tax payable

	2017	2016
Corporate income tax	21,841	15,548
Value added tax	3,831	3,049
Others	1,029	926
Total	26,701	19,523

40. Other liabilities

	2017	2016
Clearing and settlement accounts	21,990	21,124
Salary risk allowances (note)	13,000	9,000
Insurance liabilities	1,711	1,888
Payment and collection account	1,394	1,208
Cheques and remittances returned	44	17
Others	42,207	32,606
Total	80,346	65,843

Note: Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances.

41. Share capital

By type of share:

	2017 & 2016 No. of shares (in million)
Listed shares	
– A-Shares	20,629
– H-Shares	4,591
Total	25,220

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

	Capital	
	No. of shares (in million)	Amount
At 1 January 2017 and at 31 December 2017	**25,220**	**25,220**

42. Preference shares

a) Preference shares

	1 January 2017		Issue in the year		**31 December 2017**	
	No. (millions of shares)	Amount	No. (millions of shares)	Amount	**No. (millions of shares)**	**Amount**
Issuance of Offshore Preference Shares in 2017 (note (i))	–	–	50	6,597	**50**	**6,597**
Issuance of Domestic Preference Shares in 2017 (note (ii))	–	–	275	27,468	**275**	**27,468**
Total	–	–	325	34,065	**325**	**34,065**

(i) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative Offshore Preference Shares in the aggregate par value of USD1,000 million on 25 October 2017. Each Offshore Preference Share has a par value of USD20 and 50 million Offshore Preference Shares were issued in total. The initial dividend rate is 4.40% and is subsequently subject to reset per agreement, but not exceed 16.68%. Dividends on the Offshore Preference Shares shall be paid out by cash, which shall be priced and announced in RMB. Save for such dividend at the agreed dividend pay-out ratio, the holders of the above Preference Shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the Preference Shares, and such cancellation shall not be deemed a default. In the event that the Bank cancels the distribution of part or all of the dividends on the Preference Shares, the Bank will not distribute any profit to holders of Ordinary Shares during the period from the date when the shareholders' general meeting adopts relevant resolution to the restoration of full dividend payment to the holders of Preference Shares. The dividends on the preference shares are non-cumulative, that is, the Bank will not distribute the dividends that be cancelled in prior years to preference shares holders.

The Offshore Preference Shares have no maturity date. However, until five years or longer since the issuance ending date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, all or part of the Offshore Preference Shares may be redeemed at the discretion of the Bank, but the Bank does not have the obligation to redeem Preference Shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that the Preference Shares will be redeemed.

42. Preference Shares *(continued)*

a) Preference shares *(continued)*

(ii) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative Domestic Preference Shares in the aggregate par value of RMB27,500 million on 18 December 2017. Each Domestic Preference Share has a par value of RMB100 and 275 million Domestic Preference Shares were issued in total. The initial dividend rate is 4.81% and is subsequently subject to reset per agreement, but shall not exceed 16.68%. Dividends on the Domestic Preference Shares shall be paid out by cash. Save for such dividend at the agreed dividend pay-out ratio, the holders of the above Preference Shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the Preference Shares, and such cancellation shall not be deemed a default. In the event that the Bank cancels the distribution of part or all of the dividends on the Preference Shares, the Bank will not distribute any profit to holders of Ordinary Shares during the period from the date when the shareholders' general meeting adopts relevant resolution to the restoration of full dividend payment to the holders of Preference Shares. The dividends on the preference shares are non-cumulative, that is, the Bank will not distribute the dividends that be cancelled in prior years to preference shares holders.

The Domestic Preference Shares have no maturity date. However, until five years or longer since the issuance ending date, subject to the satisfaction of the redemption conditions and having obtained the prior approval of the CBRC, all or part of the Domestic Preference Shares may be redeemed at the discretion of the Bank, but the Bank does not have the obligation to redeem Preference Shares. The holders of Preference Shares do not have the right to demand the Bank to redeem the Preference Shares and shall not expect that the Preference Shares will be redeemed.

The domestic and offshore preference shares have conditions of events triggering mandatory conversion as follows:

(1) Upon the occurrence of any additional Tier-1 Capital Instrument Trigger Event, that is, the Core Tier-1 Capital Adequacy Ratio drops to 5.125% or below, the Bank shall have the right to convert, without the approval of the holders of Preference Shares, part or all of the Preference Shares then issued and outstanding into Ordinary A Shares based on the total par value of the Preference Shares in order to restore the Core Tier- 1 Capital Adequacy Ratio of the Bank to above 5.125%. In case of partial conversion, the Preference Shares shall be converted on a pro rata basis and on identical conditions.

(2) Upon the occurrence of a Tier-2 Capital Trigger Event, the Bank shall have the right to convert, without the approval of the holders of Preference Shares, all of the Preference Shares then issued and outstanding into Ordinary A Shares based on the total par value of the Preference Shares. A Tier-2 Capital Trigger Event means the earlier of the following events: 1) the China Banking Regulatory Commission ("CBRC") having concluded that without a conversion or write-off, the Bank would become non-viable, and 2) the relevant authorities having concluded that without a public sector injection of capital or equivalent support, the Bank would become non-viable.

Upon the occurrence of the above mandatory conversion events, the Bank shall report to the CBRC for review and determination and shall fulfill the relevant information disclosure obligations of the Securities Law, the CSRC and Hong Kong's laws and regulations such as making provisional reports or announcements in accordance with relevant regulatory requirements.

b) Relative information attributed to equity instrument holders

	At 31 December 2017	At 31 December 2016
Equity attributed to shareholders of the bank	**480,210**	402,350
– Equity attributed to ordinary shareholders of the bank	**446,145**	402,350
– Equity attributed to other equity holders of the bank	**34,065**	–
Equity attributed to non-controlling interests	**3,182**	1,012
– Equity attributed to non-controlling holders of ordinary shares	**2,012**	1,012
– Equity attributed to non-controlling holders of other equity instrument (note 58)	**1,170**	–

43. Capital reserve

The capital reserve primarily represents share premium of the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

	2017
At 1 January and 31 December	67,523

44. Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

The movements of investment revaluation reserve are as follows:

	2017	2016
Beginning Balance	1,454	6,188
Share of investment revaluation reserve of joint ventures	44	(141)
Realised gain on disposal of available-for-sale financial assets, net of deferred tax	(501)	(1,642)
Changes in fair value of available-for-sale financial assets, net of deferred tax	(4,869)	(2,982)
Defined benefit plan, net of deferred tax	60	31
Ending Balance	(3,812)	1,454

45. Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedge in Note 2(h)(ii).

46. Surplus reserve

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF") and is provided at 10% of the audited profit after tax. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

	2017	2016
At 1 January	39,708	34,009
Statutory surplus reserve	6,451	5,699
At 31 December	46,159	39,708

47. Regulatory general reserve

Pursuant to relevant MOF notices, the Bank and the Group's financial services subsidiaries in Mainland China are required to set aside a general reserve according to a certain percentage of the ending balance of gross risk-bearing assets through profit after tax to cover potential losses against their assets. Effective from 1 July 2012, the minimum general reserve balance should be 1.5% of the ending balance of gross risk-bearing assets with a transition period of five years. The Bank and the Group's financial services subsidiaries in Mainland China have complied with the above requirements as of 31 December 2017.

	2017	2016
At 1 January	67,838	64,679
Statutory surplus reserve	3,083	3,159
At 31 December	70,921	67,838

48. Profit appropriations

(a) Dividends approved/declared by shareholders

	2017	2016
Dividends in 2016, approved and to be declared RMB0.74 per shares	18,663	–
Dividends in 2015, approved and to be declared RMB0.69 per shares	–	17,402

(b) Proposed profit appropriations

	2017	2016
Statutory surplus reserve	6,451	5,699
Regulatory general reserve	3,083	3,159
Dividends		
– cash dividend: RMB0.84 per shares (2016: RMB0.74 per shares)	21,185	18,663
Total	30,719	27,521

2017 profit appropriation is proposed in accordance with the resolution passed at the meeting of the Board of Directors held on 23 March 2018 and will be submitted to the 2017 annual general meeting for approval.

49. Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of operations outside Mainland China.

50. The bank's statement of financial position

	2017	2016
Assets		
Cash	15,724	15,632
Precious metals	9,243	2,937
Balances with central bank	583,692	562,305
Balances with banks and other financial institutions	43,189	82,361
Placements with banks and other financial institutions	165,511	204,197
Amounts held under resale agreements	252,464	277,997
Loans and advances to customers	3,159,655	2,907,561
Interest receivable	27,216	24,695
Financial assets at fair value through profit or loss	57,902	50,305
Derivative financial assets	17,691	8,029
Available-for-sale financial assets	341,571	346,090
Held-to-maturity investments	557,942	475,924
Debt securities classified as receivables	570,175	528,553
Investments in subsidiaries	43,901	43,296
Interest in joint ventures	3,095	2,043
Property and equipment	23,145	23,186
Investment properties	621	534
Intangible assets	6,354	2,897
Deferred tax assets	48,734	30,399
Other assets	15,550	23,638
Total assets	5,943,375	5,612,579
Liabilities		
Borrowing from central bank	414,838	330,108
Deposits from banks and other financial institutions	421,251	536,868
Placements from banks and other financial institutions	189,825	155,378
Amounts sold under repurchase agreements	125,585	162,275
Deposits from customers	3,890,024	3,642,640
Interest payable	34,398	34,873
Financial liabilities at fair value through profit or loss	26,437	23,561
Derivative financial liabilities	21,194	10,344
Debt securities issued	260,560	250,523
Salaries and welfare payable	6,245	5,694
Tax payable	25,942	18,851
Other liabilities	65,802	54,658
Total liabilities	5,482,101	5,225,773
Equity		
Share capital	25,220	25,220
Other equity instruments – Preference Shares	34,065	–
Capital reserve	76,681	76,681
Investment revaluation reserve	(4,093)	1,206
Hedging reserve	(86)	(19)
Surplus reserve	46,159	39,708
Regulatory general reserve	69,790	67,030
Retained profits	192,431	158,317
Proposed profit appropriations	21,185	18,663
Exchange reserve	(78)	–
Total equity	461,274	386,806
Total equity and liabilities	5,943,375	5,612,579

50. The bank's statement of financial position *(continued)*

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's reserves are as follows.

	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Total
Balance at 1 January 2017	25,220	–	76,681	1,206	(19)	39,708	67,030	158,317	18,663	–	386,806
Changes in equity for 2017:	–	34,065	–	(5,299)	(67)	6,451	2,760	34,114	2,522	(78)	74,468
Net profit for the year	–	–	–	–	–	–	–	64,510	–	–	64,510
Other comprehensive income for the year	–	–	–	(5,299)	(67)	–	–	–	–	(78)	(5,444)
Total comprehensive income for the year	–	–	–	(5,299)	(67)	–	–	64,510	–	(78)	59,066
Capital injection from preference shareholders	–	34,065	–	–	–	–	–	–	–	–	34,065
Profit appropriations	–	–	–	–	–	6,451	2,760	(30,396)	2,522	–	(18,663)
Appropriations to statutory surplus reserve	–	–	–	–	–	6,451	–	(6,451)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	–	2,760	(2,760)	–	–	–
Dividends paid for the year 2016	–	–	–	–	–	–	–	–	(18,663)	–	(18,663)
Proposed dividends for the year 2017	–	–	–	–	–	–	–	(21,185)	21,185	–	–
Balance at 31 December 2017	25,220	34,065	76,681	(4,093)	(86)	46,159	69,790	192,431	21,185	(78)	461,274

	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Total
Balance at 1 January 2016	25,220	76,681	5,769	241	34,009	63,928	128,791	17,402	–	352,041
Changes in equity for 2016:	–	–	(4,563)	(260)	5,699	3,102	29,526	1,261	–	34,765
Net profit for the year	–	–	–	–	–	–	56,990	–	–	56,990
Other comprehensive income for the year	–	–	(4,563)	(260)	–	–	–	–	–	(4,823)
Total comprehensive income for the year	–	–	(4,563)	(260)	–	–	56,990	–	–	52,167
Profit appropriations	–	–	–	–	5,699	3,102	(27,464)	1,261	–	(17,402)
Appropriations to statutory surplus reserve	–	–	–	–	5,699	–	(5,699)	–	–	–
Appropriations to regulatory general reserve	–	–	–	–	–	3,102	(3,102)	–	–	–
Dividends paid for the year 2015	–	–	–	–	–	–	–	(17,402)	–	(17,402)
Proposed dividends for the year 2016	–	–	–	–	–	–	(18,663)	18,663	–	–
Balance at 31 December 2016	25,220	76,681	1,206	(19)	39,708	67,030	158,317	18,663	–	386,806

51. Notes to consolidated cash flow statements

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

	2017	2016
Cash and balances with central bank	84,424	90,738
Balance with banks and other financial institutions	58,814	73,463
Placements with banks and other financial institutions	61,872	98,497
Amounts held under resale agreements	249,992	265,868
Debt securities investments	5,323	3,546
Total	460,425	532,112

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those which cash flows were classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Negotiable interbank certificates of deposit	Certificates of deposit issued	Debt securities issued	Interest payable	Total
At January 2017	188,248	18,114	81,253	1,413	289,028
Cash changes:					
Proceeds from the issue	559,795	19,086	52,449	–	631,330
Repayment	(569,088)	(11,916)	(30,186)	–	(611,190)
Interest paid	(9,872)	–	–	(4,611)	(14,483)
Non-cash changes:					
Accrued interest	–	–	–	5,018	5,018
Discount or premium amortisation	9,113	(29)	(666)	–	8,418
Fair value adjustments	–	13	(11)	–	2
Foreign exchange	(7)	(1,148)	(1,247)	–	(2,402)
At December 2017	178,189	24,120	101,592	1,820	305,721

(c) Significant non-cash transactions

There are no significant non-cash transactions during the year.

52. Operating segments

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

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

Since 2016, in order to adapt to the client and product line coordination mechanism, the Group was converted into wholesale finance business and retail finance business and other business segment for business decisions, report and performance evaluation. The profits and losses of the treasury were allocated to two business lines proportionally. After adjustment for the main business segments of the Group, the segments information was reported as follows:

– Wholesale finance business

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

– Retail finance business

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

– Other business

Other business covers property leasing, some businesses operated by subsidiaries other than WLB, associates and joint ventures, and other relevant businesses. None of these segments meets any of the quantitative thresholds so far for segments division.

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

The accounting policies of the operating segments are the same as the Group's accounting policies. Operating segment income represents income generated from external customers, inter-segment transactions are offset. No customer contributed 10% or more to the Group's revenue for 2017 and 2016. Internal transactions are conducted at fair value.

52. Operating segments *(continued)*

(a) Segment results, assets and liabilities

	Wholesale financial business		Retail financial business		Other business		Total	
	2017	2016 (Restated)	2017	2016 (Restated)	2017	2016 (Restated)	2017	2016
External net interest income	28,441	39,706	89,674	75,356	26,737	19,533	144,852	134,595
Internal net interest income/(expense)	44,084	26,837	(18,716)	(7,863)	(25,368)	(18,974)	–	–
Net interest income/(expense)	72,525	66,543	70,958	67,493	1,369	559	144,852	134,595
Net fee and commission income	23,871	25,911	36,390	31,797	3,757	3,157	64,018	60,865
Other net income	6,619	9,636	1,035	900	3,515	3,953	11,169	14,489
Operating income	103,015	102,090	108,383	100,190	8,641	7,669	220,039	209,949
Operating expenses								
– Depreciation	(1,542)	(1,497)	(2,368)	(2,394)	(1,152)	(396)	(5,062)	(4,287)
– Others	(24,863)	(23,102)	(37,863)	(35,663)	(2,643)	(2,096)	(65,369)	(60,861)
Subtotal	(26,405)	(24,599)	(40,231)	(38,057)	(3,795)	(2,492)	(70,431)	(65,148)

	Wholesale financial business		Retail financial business		Other business		Total	
	2017	2016 (Restated)	2017	2016 (Restated)	2017	2016 (Restated)	2017	2016
Reportable segment profit before impairment losses	76,610	77,491	68,152	62,133	4,846	5,177	149,608	144,801
Impairment losses (note(i))	(39,826)	(48,233)	(19,737)	(17,034)	(363)	(892)	(59,926)	(66,159)
Share of profit of associates and joint ventures	–	–	–	–	998	321	998	321
Reportable segment profit/(loss) before tax	36,784	29,258	48,415	45,099	5,481	4,606	90,680	78,963
Capital expenditure (note (ii))	2,930	1,354	4,494	2,166	8,926	12,395	16,350	15,915

	Wholesale financial business		Retail financial business		Other business		Total	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Reportable segment assets	2,824,718	2,812,631	1,814,999	1,571,688	1,592,483	1,506,820	6,232,200	5,891,139
Reportable segment liabilities	3,459,039	3,204,988	1,359,453	1,301,502	901,122	968,103	5,719,614	5,474,593
Interest in associates and joint ventures	–	–	–	–	5,079	3,712	5,079	3,712

Note:

(i) Since 2017, the Group has allocated the additional provision to each operating segment and restated the comparable figures.

(ii) Capital expenditure represents total amount incurred for acquiring long-term segment assets.

52. Operating segments *(continued)*

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

	2017	2016
Total operating income for reportable segments	220,039	209,949
Total profit before income tax for reportable segments	90,680	78,963

	31/12/2017	31/12/2016
Assets		
Total assets for reportable segments	6,232,200	5,891,139
Goodwill	9,954	9,954
Intangible assets	737	833
Deferred tax assets	50,120	31,010
Other unallocated assets	4,627	9,375
Consolidated total assets	6,297,638	5,942,311
Liabilities		
Total liabilities for reportable segments	5,719,614	5,474,593
Tax payable	26,701	19,523
Other unallocated liabilities	67,931	44,833
Consolidated total liabilities	5,814,246	5,538,949

52. Operating segments *(continued)*

(c) Geographical segments

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

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

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

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

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

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

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

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

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

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

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

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

52. Operating segments *(continued)*

(c) Geographical segments*(continued)*

	Total assets		Total liabilities		Non-current assets		Profit before tax		operating income	
Geographical information	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	2017	2016	2017	2016
Headquarter	2,908,217	2,634,760	2,557,785	2,313,672	29,628	25,029	15,387	43,532	76,680	77,480
Yangtze River Delta region	761,970	768,653	745,677	760,973	2,849	2,911	19,659	10,312	32,517	30,428
Bohai Rim region	492,441	465,320	484,410	461,735	2,131	2,331	12,080	5,965	25,116	22,860
Pearl River Delta and West Coast region	645,313	634,092	632,515	626,656	2,074	1,726	15,998	11,856	29,758	27,501
Northeast region	151,548	157,710	150,447	156,670	1,162	1,278	1,555	1,436	6,610	6,447
Central region	358,334	353,771	352,226	354,073	2,573	2,566	8,108	634	15,181	13,935
Western region	360,547	368,485	355,602	373,028	2,490	2,665	6,745	(3,559)	16,015	16,049
Overseas	199,836	177,271	196,693	173,987	165	107	2,071	1,500	3,399	2,703
Subsidiaries	419,432	382,249	338,891	318,155	30,640	24,525	9,077	7,287	14,763	12,546
Total	6,297,638	5,942,311	5,814,246	5,538,949	73,712	63,138	90,680	78,963	220,039	209,949

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

53. Assets pledged as security

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	2017	2016
Borrowing from central bank	414,838	330,108
Amounts sold under repurchase agreements	125,620	162,942
Subtotal	540,458	493,050
Assets pledged		
– Available-for-sale financial assets	95,828	92,362
– Held-to-maturity investments	409,092	289,715
– Trading assets	5,316	4,640
– Other assets	75,946	107,701
Total	586,182	494,418

The transactions under repurchase agreements are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

54. Contingent liabilities and commitments

(a) Credit commitments

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

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

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

54. Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

	2017	2016
Contractual amount		
Irrevocable guarantees	251,683	240,600
Of which: Financial guarantees	161,407	158,423
Non-financial guarantees	90,276	82,177
Irrevocable letters of credit	70,724	103,982
Of which: Open sight letters of credit	9,658	18,978
Open usance letters of credit	6,586	11,261
Other payment commitments (note)	54,480	73,743
Bills of acceptances	245,007	256,655
Irrevocable loan commitments		
– with an original maturity within 1 year (inclusive)	1,908	9,935
– with an original maturity over 1 year	78,561	55,911
Credit card commitments	690,898	481,401
Others	68,227	18,740
Total	1,407,008	1,167,224

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

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

These contingent liabilities and commitments have off-balance sheet credit risk. Before the commitments are fulfilled or expired, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB2,042,851 million at 31 December 2017 (2016: RMB1,685,058 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective lending agreements. The Group will not assume any risks on the unused credit limits for these loan customers. As a result, such balances are not included in the above contingent liabilities and commitments.

	2017	2016
Credit risk weighted amounts of contingent liabilities and commitments	355,050	361,045

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

54. Contingent liabilities and commitments *(continued)*

(b) Capital commitments

Authorised capital commitments were as follows:

	2017	2016
For purchase of property and equipment:		
– Contracted for	6,325	6,898
– Authorised but not contracted for	740	128
Total	7,065	7,026

(c) Operating lease commitments

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

	2017	2016
Within 1 year (inclusive)	3,701	3,334
1 year to 5 years (inclusive)	8,925	8,829
Over 5 years	1,845	2,396
Total	14,471	14,559

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

(d) Outstanding litigations

At 31 December 2017, the Group was a defendant in certain outstanding litigations with gross claims of RMB728 million (2016: RMB1,444 million) arising from its banking activities. The Board of Directors considers that no material losses would be incurred by the Group as a result of these outstanding litigations and therefore no provision has been made in the consolidated financial statements.

(e) Redemption obligations

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

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

	2017	2016
Redemption obligations	25,182	25,465

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

55. Transactions on behalf of customers

(a) Entrusted lending business

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

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

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

	2017	2016
Entrusted loans	**489,351**	388,340
Entrusted funds	**(489,351)**	(388,340)

(b) Wealth management services

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

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

	2017	2016
Funds received from customers under wealth management services	**2,177,856**	2,375,766

56. Risk management

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the Board of Directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate finance business, the Group formulated credit policy guideline, and enhanced credit acceptance policies and management requirements for corporate and institutional clients, credit portfolios management and implements limit control measures under key domains to improve the quality of credit exposure.

With respect to the credit risk management of retail finance business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard retail loans collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or credit risk offset. Collateral structures and legal covenants are reviewed regularly to ensure that they can still cover the given risks and be consistent with market practices.

In respect of loan classification, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss). The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in contingent liabilities and commitments are essentially the same as the credit risk involved in loans and advances to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated the quota limit management policy to monitor and analyse the loan portfolio.

Analyses of loans and advances by industry and loan portfolio are stated in Note 19.

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

56. Risk management *(continued)*

(a) Credit risk *(continued)*

(i) Maximum exposure

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is the total amount of the carrying amount of the relevant financial assets (including derivatives) as disclosed in the consolidated statement of financial position and the carrying amount of the off balance sheet items disclosed in Note 54(a). At 31 December 2017, the maximum exposure to credit risk of those items is RMB9,597,033 million (2016: RMB8,680,175 million).

(ii) The credit quality of loans and advances to customers can be analysed as follows:

	2017	2016
Impaired loans and advances to customers		
For which impairment allowances are individually assessed		
Gross amount	**41,520**	45,718
Less: impairment allowances	**(33,931)**	(29,230)
Carrying amount	**7,589**	16,488
For which impairment allowances are collectively assessed		
Gross amount	**15,866**	15,392
Less: impairment allowances	**(13,784)**	(10,108)
Carrying amount	**2,082**	5,284
Overdue but not impaired		
– within 3 months (inclusive)	**12,202**	16,873
– 3 months to 6 months (inclusive)	**11**	6
– 6 months to 1 year (inclusive)	**3**	11
– Over 1 year	**64**	170
Gross amount	**12,280**	17,060
Less: impairment allowances – collectively assessed	**(2,655)**	(2,912)
Carrying amount	**9,625**	14,148
Neither overdue nor impaired		
Gross amount	**3,495,378**	3,183,511
Less: impairment allowances – collectively assessed	**(100,062)**	(67,782)
Carrying amount	**3,395,316**	3,115,729
Total carrying amount	**3,414,612**	3,151,649

The carrying amount of loans and advances that were overdue or impaired had the terms been renegotiated was RMB18,009 million as at 31 December 2017 (2016: RMB16,671 million).

56. Risk management *(continued)*

(a) Credit risk *(continued)*

(iii) Credit quality of debt investments

At the end of the reporting period, the analysis of the credit quality of debt investments by designated external credit assessment institution, Standard & Poor's, is as follows:

	2017	2016
Individually assessed and impaired gross amount of debt investments	1,083	1,726
Impairment allowances	(802)	(1,164)
Subtotal	281	562
Neither overdue nor impaired		
AAA	189,250	180,334
AA- to AA+	38,110	502,174
A- to A+	517,664	33,833
Lower than A-	23,417	18,494
Impairment allowances	(480)	–
Subtotal	767,961	734,835
Unrated	206,881	164,416
Total	975,123	899,813

Note: Bonds issued by the governments, central banks and policy banks held by the Group amounted to RMB755,473 million (2016: RMB693,249 million) are included.

(iv) Collateral

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	2017	2016
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	13,460	19,835

(b) Market risk

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

56. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk

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

(1) Trading book

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

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

(2) Banking book

The Group's foreign exchange risk under the banking book is overall managed by the Head Office. The Asset and Liability Management Department, as the treasurer of the Bank is in charge of the banking book foreign exchange risk management. The audit department is responsible for auditing. The treasurer is responsible to manage the foreign exchange risk under the banking book with a prudent approach and compliance with the regulatory requirements, and manage the foreign exchange risk through approaches such as management of transaction limits and adjustment of plans.

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

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

The Group continued to strengthen bank account exchange rate risk monitoring and authorization management of quota limit to ensure that risks are controlled within a reasonable range.

56. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book (continued)

Assets and liabilities by original currency are shown as follows:

	2017						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and balances with central bank	569,551	27,997	16,664	2,207	616,419	4,299	20,001
Amounts due from banks and other financial institutions	355,030	99,931	12,419	16,716	484,096	15,346	14,905
Loans and advances to customers	3,036,190	198,058	145,395	34,969	3,414,612	30,415	174,502
Investments (including derivatives)	1,492,420	69,878	24,625	10,349	1,597,272	10,731	29,556
Other assets	135,223	33,360	16,960	(304)	185,239	5,121	20,355
Total	5,588,414	429,224	216,063	63,937	6,297,638	65,912	259,319
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,141,055	103,010	5,660	2,585	1,252,310	15,819	6,794
Deposits from customers	3,542,432	336,471	149,594	35,848	4,064,345	51,670	179,540
Financial liabilities at fair value through profit or loss (including derivatives)	23,935	22,750	1,791	–	48,476	3,493	2,151
Debt securities issued	255,686	33,038	6,930	823	296,477	5,073	8,317
Other liabilities	206,794	(95,917)	13,312	28,449	152,638	(14,729)	15,975
Total	5,169,902	399,352	177,287	67,705	5,814,246	61,326	212,777
Net position	418,512	29,872	38,776	(3,768)	483,392	4,586	46,542
Net off-balance sheet position:							
Credit commitments (note)	1,207,229	133,144	35,740	30,895	1,407,008	20,447	42,896
Derivatives:							
– forward purchased	396,668	519,657	37,360	17,382	971,067	79,800	44,839
– forward sold	(462,581)	(409,541)	(37,628)	(37,210)	(946,960)	(62,890)	(45,161)
– net currency option position	(100,947)	(80,313)	(185)	(3,399)	(184,844)	(12,333)	(222)
Total	(166,860)	29,803	(453)	(23,227)	(160,737)	4,577	(544)

56. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book (continued)

	2016						
	Equivalent in RMB million					Original currency in million	
	RMB	USD	HKD	Others	Total	USD	HKD
Assets							
Cash and balances with central bank	548,051	26,607	19,977	2,894	597,529	3,829	22,290
Amounts due from banks and other financial institutions	429,784	126,556	6,105	19,518	581,963	18,211	6,813
Loans and advances to customers	2,759,505	223,726	138,280	30,138	3,151,649	32,194	154,297
Investments (including derivatives)	1,355,043	71,511	24,081	8,975	1,459,610	10,290	26,869
Other assets	60,323	100,136	5,827	(14,726)	151,560	14,409	6,503
Total	5,152,706	548,536	194,270	46,799	5,942,311	78,933	216,772
Liabilities							
Amounts due to central bank, banks and other financial institutions	1,187,122	91,341	13,707	5,363	1,297,533	13,143	15,294
Deposits from customers	3,246,238	379,030	133,217	43,564	3,802,049	54,541	148,647
Financial liabilities at fair value through profit or loss (including derivatives)	18,263	13,520	2,945	–	34,728	1,945	3,287
Debt securities issued	248,203	19,806	7,073	–	275,082	2,851	7,892
Other liabilities	109,510	9,779	5,633	4,635	129,557	1,407	6,283
Total	4,809,336	513,476	162,575	53,562	5,538,949	73,887	181,403
Net position	343,370	35,060	31,695	(6,763)	403,362	5,046	35,369
Net off-balance sheet position:							
Credit commitments (note)	988,161	147,576	15,340	16,147	1,167,224	21,236	17,117
Derivatives:							
– forward purchased	350,305	552,468	58,648	40,549	1,001,970	79,497	65,441
– forward sold	(454,714)	(422,095)	(56,935)	(50,761)	(984,505)	(60,737)	(63,529)
– net currency option position	11,118	(13,155)	(13)	(722)	(2,772)	(1,893)	(15)
Total	(93,291)	117,218	1,700	(10,934)	14,693	16,867	1,897

Note: Credit commitments generally expire before they are drawn, therefore the above net position does not represent the future cash outflows.

56. Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book (continued)

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net foreign exchange gains and losses and equity. The following table sets forth the results of the Group's foreign exchange risk sensitivity analysis on the assets and liabilities as at 31 December 2017 and 31 December 2016.

	2017		2016	
	Change in foreign currency exchange rate (in basis points)		Change in foreign currency exchange rate (in basis points)	
	(100)	100	(100)	100
Increase/(decrease) in annualised net profit	15	(15)	(243)	243
Increase/(decrease) in annualised equity	15	(15)	(243)	243

Actual changes in the Group's net profit and equity resulting from increases or decreases in foreign exchange rates may be different from the results of this sensitivity analysis.

(ii) Interest rate risk

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

(1) Trading book

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

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

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

56. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) Banking book

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

The Group has mainly adopted scenario simulation analysis, re-pricing exposure analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Stress test is a form of scenario simulation used to assess the changes in NII and EVE indicators when there is an extreme fluctuation in interest rates. The Group conducts stress test on interest rate risk of banking book on a monthly basis. The results of stress test for 2017 showed that the interest rate risk of banking book of the Company was generally stable with various indicators staying within the set limits.

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

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

The following table indicates the expected next repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of the reporting period.

	2017					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central bank	616,419	600,007	–	–	–	16,412
Amounts due from banks and other financial institutions	484,096	388,406	90,437	1,901	–	3,352
Loans and advances to customers (note)	3,414,612	1,481,059	1,669,795	210,845	52,913	–
Investments (including derivatives)	1,597,272	354,103	289,976	566,062	363,422	23,709
Other assets	185,239	–	–	–	–	185,239
Total assets	6,297,638	2,823,575	2,050,208	778,808	416,335	228,712
Liabilities						
Amounts due to banks and other financial institutions	1,252,310	908,925	329,543	7,628	3,457	2,757
Deposits from customers	4,064,345	3,056,891	588,581	404,127	3,354	11,392
Financial liabilities at fair value through profit or loss (including derivatives)	48,476	83	3,823	3,195	388	40,987
Debt securities issued	296,477	143,759	56,327	63,707	32,684	–
Other liabilities	152,638	–	164	1	–	152,473
Total liabilities	5,814,246	4,109,658	978,438	478,658	39,883	207,609
Asset-liability gap	483,392	(1,286,083)	1,071,770	300,150	376,452	21,103

56. Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) Banking book (continued)

	2016					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central bank	597,529	581,156	–	–	–	16,373
Amounts due from banks and other financial institutions	581,963	514,789	57,104	6,768	–	3,302
Loans and advances to customers (note)	3,151,649	1,977,375	723,743	298,778	151,753	–
Investments (including derivatives)	1,459,610	337,869	342,294	395,745	367,643	16,059
Other assets	151,560	–	–	–	–	151,560
Total assets	5,942,311	3,411,189	1,123,141	701,291	519,396	187,294
Liabilities						
Amounts due to banks and other financial institutions	1,297,533	1,004,320	288,508	3,301	1,331	73
Deposits from customers	3,802,049	3,004,092	569,475	220,745	115	7,622
Financial liabilities at fair value through profit or loss (including derivatives)	34,728	135	4,643	7,340	415	22,195
Debt securities issued	275,082	113,940	107,979	21,807	31,356	–
Other liabilities	129,557	472	676	315	1	128,093
Total liabilities	5,538,949	4,122,959	971,281	253,508	33,218	157,983
Asset-liability gap	403,362	(711,770)	151,860	447,783	486,178	29,311

Note:

For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2017 and 31 December 2016, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals or interests were overdue.

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the results of the Group's interest rate sensitivity analysis on the assets and liabilities as at 31 December 2017 and 31 December 2016.

	2017		2016	
	Change in interest rates (in basis points)		Change in interest rates (in basis points)	
	25	**(25)**	25	(25)
(Decrease)/increase in annualised net interest income	**(2,010)**	**2,010**	(1,614)	1,614
(Decrease)/increase in equity	**(3,152)**	**3,174**	(2,782)	2,582

Actual changes in the Group's net interest income and equity resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

56. Risk management *(continued)*

(c) Liquidity risk

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

In line with its liquidity risk management policies, the Group sets out and implements the principle of supervisory duty segregation. It also puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, the board of supervisors, senior management, designated committees and relevant departments to ensure the effectiveness of the liquidity risk management. The Board of Directors shall accept the ultimate responsibility for liquidity risk management, ensure the Company can effectively identify, measure, monitor and control liquidity risk and are responsible for determining liquidity risk level which the Group can withstand. The Risk and Capital Management Committee under the Board of Directors shall discharge responsibilities in liquidity risk management on behalf of the Board of Directors. The Board of Supervisors shall be responsible for the supervision and evaluation of the performance of the Board of Directors and senior management in the liquidity risk management and report to the general meeting of shareholders. The senior management (being the Executive Office of President of the Head Office) shall be responsible for the concrete management work relating to liquidity risk and developing a timely understanding of changes in liquidity risks, and shall report the same to the Board of Director. Assets and Liabilities Committee (ALCO) shall, under the authority of the senior management, exercise the corresponding liquidity risk management functions. The Assets and Liabilities Management Department of the Head Office is a day-to-day working body of ALCO, and shall be responsible for various concrete management work including formulating policies and procedures relating to liquidity risk management and conducting qualitative and quantitative analysis of liquidity risk. The Audit Department of the Head Office shall perform duties in respect of audit work of liquidity risk management, and conduct comprehensive audit on the Group's liquidity risk management.

The Group is prudent in managing the risk, which better suits its current development stage. Basically, the Group's existing liquidity risk management policies and systems meet regulatory requirements and its own management needs.

The Group's liquidity risk management is coordinated by Head Office with branches, subsidiaries acting in concert. The Asset and Liability Management Department acts as the treasurer of the Group is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis under regulatory requirement, and conducting centralised liquidity management through quota management, budget control, initiative debt management as well as internal fund transfer pricing.

The Group measures, monitors and identifies liquidity risk by short-term reserves as well as duration structures and contingencies. It monitors the limit indicators closely at fixed intervals. Specifically, the Group adopts information outsourced from Wind, Reuters and other systems as its external liquidity indicators, and uses self-developed liquidity risk management system to measure its internal liquidity indicators and cash flow statements.

It closely monitors various limit indicators at regular intervals, performs regular stress testing to judge whether it can address liquidity needs under extreme circumstances. In addition to the annual stress tests required by the regulatory authorities, the Company conducts stress tests on the liquidity risk associated with domestic and foreign currencies on a monthly basis. In addition, the Group draws up liquidity contingency plans and conducts liquidity contingency drills to prepare for liquidity crises.

56. Risk management *(continued)*

(c) Liquidity risk *(continued)*

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

	2017							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	84,424	–	–	–	–	–	531,995	616,419
Amounts due from banks and other financial institutions	43,809	299,502	33,898	102,778	1,900	–	2,209	484,096
Loans and advances to customers (note (ii))	6,822	358,319	268,551	1,006,228	880,201	887,849	6,642	3,414,612
Investments (note (iii))								
– Financial assets at fair value through profit or loss (including derivatives)	–	5,298	14,697	42,895	18,354	1,592	876	83,712
– Available-for-sale financial assets	–	8,337	18,304	68,573	166,935	116,255	4,697	383,101
– Held-to-maturity investments	–	3,418	6,444	31,217	306,655	210,492	(8)	558,218
– Debt securities classified as receivables	–	216,900	33,083	161,336	119,267	40,287	1,368	572,241
Other assets	15,299	18,040	3,048	2,793	1,292	505	144,262	185,239
Total assets	150,354	909,814	378,025	1,415,820	1,494,604	1,256,980	692,041	6,297,638
Amounts due to banks and other financial Institutions	296,528	403,330	182,894	340,645	23,509	5,404	–	1,252,310
Deposits from customers (note (iv))	2,554,598	364,232	350,167	570,414	221,560	3,374	–	4,064,345
Financial liabilities at fair value through profit or loss (including derivatives)	6,815	6,119	7,905	21,743	5,126	649	119	48,476
Debt securities issued	–	48,497	91,414	59,187	64,695	32,684	–	296,477
Other liabilities	77,230	38,461	8,274	12,795	8,725	1,199	5,954	152,638
Total liabilities	2,935,171	860,639	640,654	1,004,784	323,615	43,310	6,073	5,814,246
(Short)/long position	(2,784,817)	49,175	(262,629)	411,036	1,170,989	1,213,670	685,968	483,392

56. Risk management *(continued)*

(c) Liquidity risk *(continued)*

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

Notes:

(i) For balances with central bank, the amount with an indefinite maturity represents statutory deposit reserve and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, the amount with an indefinite maturity represents loans of which the whole or part of the principals or interest was overdue for more than one month, and is stated net of appropriate allowances for impairment losses.

(iii) The residual maturities of financial assets at fair value through profit or loss included in investments do not represent the Group's intention to hold them to maturity.

(iv) The deposits from customers that are repayable on demand include matured time deposits which are pending for customers' instructions.

56. Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following table provides an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis.

	2017								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	616,419	616,419	84,424	–	–	–	–	–	531,995
Amounts due from banks and other financial institutions	484,096	489,042	43,932	300,198	34,503	106,161	2,027	–	2,221
Loans and advances to customers	3,414,612	4,119,230	6,822	371,155	298,493	1,123,118	1,127,013	1,185,940	6,689
Investments									
– Financial assets at fair value through profit or loss	64,796	71,187	–	2,363	10,209	35,379	16,741	1,307	5,188
– Available-for-sale financial assets	383,101	427,401	–	24,266	20,020	76,330	192,057	111,115	3,613
– Held-to-maturity investments	558,218	682,646	–	5,176	9,825	46,113	366,084	255,456	(8)
– Debt securities classified as receivables	572,241	607,691	–	217,399	35,113	170,282	133,974	49,555	1,368
Other assets	60,496	60,496	15,299	18,040	3,048	2,793	1,292	505	19,519
Total	6,153,979	7,074,112	150,477	938,597	411,211	1,560,176	1,839,188	1,603,878	570,585
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	1,252,310	1,265,833	296,594	403,939	185,110	346,279	24,732	9,179	–
Deposits from customers	4,064,345	4,175,394	2,609,943	367,920	356,795	581,761	252,097	6,878	–
Financial liabilities at fair value through profit or loss	26,619	26,658	6,815	3,939	3,697	8,464	3,237	388	118
Debt securities issued	296,477	320,981	–	49,027	92,948	62,025	79,597	37,384	–
Other liabilities	116,847	119,283	42,868	38,696	8,490	14,013	8,824	1,244	5,148
Total	5,756,598	5,908,149	2,956,220	863,521	647,040	1,012,542	368,487	55,073	5,266
Gross loan commitments		771,367	771,367	–	–	–	–	–	–

56. Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2016								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	597,529	597,529	90,738	–	–	–	–	–	506,791
Amounts due from banks and other financial institutions	581,963	586,396	61,285	378,904	77,928	58,662	7,378	–	2,239
Loans and advances to customers	3,151,649	3,805,837	11,949	123,701	503,608	1,067,199	926,595	1,149,939	22,846
Investments									
– Financial assets at fair value through profit or loss	55,972	59,213	–	401	5,654	9,780	39,332	1,996	2,050
– Available-for-sale financial assets	389,138	422,249	–	9,579	19,694	101,158	172,590	115,467	3,761
– Held-to-maturity investments	477,064	596,611	–	724	9,382	33,966	254,256	298,282	1
– Debt securities classified as receivables	528,748	547,099	–	188,340	39,854	222,446	68,661	26,043	1,755
Other assets	58,201	58,893	24,081	11,880	2,695	2,345	939	494	16,459
Total	5,840,264	6,673,827	188,053	713,529	658,815	1,495,556	1,469,751	1,592,221	555,902
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	1,297,533	1,305,147	417,794	364,598	203,763	298,347	15,266	5,379	–
Deposits from customers	3,802,049	3,805,351	2,342,133	260,757	394,194	582,171	225,981	115	–
Financial liabilities at fair value through profit or loss	23,576	23,592	6,914	1,851	1,681	5,381	7,336	415	14
Debt securities issued	275,082	310,396	–	34,752	84,501	120,026	33,643	37,474	–
Other liabilities	102,089	103,184	43,488	25,513	7,010	14,674	8,963	1,027	2,509
Total	5,500,329	5,547,670	2,810,329	687,471	691,149	1,020,599	291,189	44,410	2,523
Gross loan commitments		547,247	547,247	–	–	–	–	–	–

56. Risk management *(continued)*

(d) Operational risk

Operational risk arises from the direct and indirect loss due to technique, procedure, infrastructure and staff deficiency, as well as other risks which have effect on operation, which includes legal risk. But the strategic risk and reputation risk are not included.

During the reporting period, through the strengthening of operational risk appraisal and assessment mechanisms, stepping up the identification, evaluation and monitoring of operational risk in key areas, the Group carried out a comprehensive special management of low-risk business. Starting with process, institution, employee and system, the Group focused on the existing problems of critical control segment, and measured these problems by management requirement's solidification and refinement. Meanwhile, further improvement on operational risk management framework and methods, developing operational risk assessment mechanism and strengthening operational risk management economic capital allocation mechanism can enhance the ability and effectiveness of operational risk's management in the Group. Now all major indexes can meet the requirements of the Group's risk preference.

In face of challenges from internal and external operations and management, the Group will, based on its risk preference, continue to upgrade its risk management skills, strengthen operational risk monitoring and controls, as well as endeavour to prevent and reduce operational risk losses.

(e) Capital management

The objectives of the Group's capital management are to:

– Keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion and strategic planning implementation for comprehensive and coordinated and sustainable growth;

– Comply with capital regulatory requirements, perform procedures to assess internal capital adequacy, openly disclose information related to capital management, fully cover all risks and ensure safe operation of the entire group;

– Put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate client pricing and decision-making, and increase capital deployment efficiency; and

– Reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns to shareholders.

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

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers the Bank's all branches. As at 31 December 2016, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: WLB, CMBICHC, CMBFLC and CMFM.

56. Risk management *(continued)*

(e) Capital management *(continued)*

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) and other relevant regulations. On 18 April 2014, the CBRC approved the Bank to adopt the advanced capital management approach. Within the scope of approval of the CBRC, the Bank could calculate corporation and financial institutions risk exposure using the primary internal rating-based approach, retail risk exposure using the internal rating-based approach, market risk using the internal model approach, and operational risk using the standardised approach. At the same time, the CBRC implemented a transition period for commercial banks approved to use the advanced approach to calculate capital. During the transition period, the commercial banks should use both the advanced approach and other approaches to calculate capital adequacy ratios, and comply with minimum capital requirements. During the period, the Group has complied with the capital requirement set by the regulators.

The Group's capital management focuses on the capital adequacy ratio management. The capital adequacy ratio reflects the Group's capability of sound operations and risk resisting. The Group's capital adequacy ratio management's objective is to carefully determine capital adequacy ratio, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plans and manages its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

(f) Use of derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. All of the Group's derivative financial instruments are traded over the counter market.

The Group enters into interest rate, currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge financial instruments and derivative financial instruments managed in conjunction with financial instruments designated at fair value through profit or loss.

The Group will choose appropriate hedging strategies and tools in light of the risk profile of interest rates or exchange rates of its assets and liabilities, as well as its analyses and judgement regarding future interest rates or exchange rate movements.

The Group is exposed to foreign exchange risk when assets or liabilities denominated in foreign currencies. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

In cash flow hedge, the Group uses interest rate swaps as hedging instruments to hedge the interest cash flows arising from the RMB loans and interbank assets portfolios.

The following tables provide an analysis of the notional amounts and the corresponding fair value of derivatives of the Group by residual maturity at the end of the reporting period. The notional amounts of the derivatives indicate the outstanding transaction volume at the end of the reporting period, not representing amounts at risk.

56. Risk management *(continued)*

(f) Use of derivatives *(continued)*

	2017						
	Notional amounts with remaining life of					Fair value	
	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	309,254	1,254,997	487,858	5,682	2,057,791	2,197	(1,808)
Currency derivatives							
Forwards	47,939	24,254	6,273	3,594	82,060	1,452	(1,595)
Foreign exchange swaps	372,129	460,552	15,532	58	848,271	12,438	(14,003)
Options	149,618	185,538	1,793	–	336,949	2,234	(3,926)
Subtotal	569,686	670,344	23,598	3,652	1,267,280	16,124	(19,524)
Other derivatives							
Equity options purchased	5	301	54,092	–	54,398	322	–
Equity options written	143	294	54,092	–	54,529	–	(323)
Commodity trading	–	–	–	–	–	–	–
Subtotal	148	595	108,184	–	108,927	322	(323)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	3,400	2,700	2,400	–	8,500	–	(79)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	100	2,377	4,839	117	7,433	52	(11)
Currency derivatives							
Foreign exchange swaps	18,730	13,459	5,791	524	38,504	221	(112)
Subtotal	18,830	15,836	10,630	641	45,937	273	(123)
Total						18,916	(21,857)

The impact of invalid cash flow hedge on profit or loss this year is zero. (2016:Nil)

56. Risk management *(continued)*

(f) Use of derivatives *(continued)*

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

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

	2017	2016
Credit risk weighted assets of counterparties		
Interest rate derivatives	**1,592**	281
Currency derivatives	**7,358**	5,799
Other derivatives	**1,014**	–
Credit valuation adjustment risk weighted assets	**18,836**	12,293
Total	**28,800**	18,373

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

56. Risk management *(continued)*

(g) Fair value information

(i) Financial instruments at fair value

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

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

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

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

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

– Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

– Level 2 inputs: other than quoted prices included in level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities inputs;

– Level 3 inputs: inputs that are unobservable for assets or liabilities.

The Group recognises transfers between levels of the fair value hierarchy in which they occur. The Group's assets and liabilities measured at fair value are measured on a recurring basis. The Group does not have assets nor liabilities measured at fair value on a non-recurring basis.

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading				
– Debt securities	10,181	44,590	–	54,771
– Long position in precious metal contracts	–	211	–	211
– Equity investments	32	–	–	32
– Investments in funds	–	401	–	401
Subtotal	10,213	45,202	–	55,415
Financial assets designated at fair value through profit or loss				
– Debt securities	4,886	4,495	–	9,381
Derivative financial assets	–	18,916	–	18,916
Available-for-sale financial assets				
– Debt securities	73,391	259,938	–	333,329
– Equity investments	1,058	162	2,005	3,225
– Investments in funds	1,905	44,481	161	46,547
Subtotal	76,354	304,581	2,166	383,101
Total	91,453	373,194	2,166	466,813
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	–	11,325	–	11,325
– Short selling securities	–	64	–	64
Subtotal	–	11,389	–	11,389
Financial liabilities designated at fair value through profit or loss				
– Precious metal contracts with other banks	–	7,688	–	7,688
– Certificates of deposit issued	–	3,185	–	3,185
– Debt securities issued	4,239	–	–	4,239
– Others	–	118	–	118
Subtotal	4,239	10,991	–	15,230
Derivative financial liabilities	–	21,857	–	21,857
Total	4,239	44,237	–	48,476

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading				
– Debt securities	8,073	33,141	–	41,214
– Long position in precious metal contracts	–	1,296	–	1,296
– Equity investments	714	–	–	714
– Investments in funds	–	109	–	109
Subtotal	8,787	34,546	–	43,333
Financial assets designated at fair value through profit or loss				
– Debt securities	4,690	7,949	–	12,639
Derivative financial assets	11	8,677	–	8,688
Available-for-sale financial assets				
– Debt securities	78,321	264,312	–	342,633
– Equity investments	1,496	85	1,715	3,296
– Investments in funds	1,090	41,961	158	43,209
Subtotal	80,907	306,358	1,873	389,138
Total	94,395	357,530	1,873	453,798
Liabilities				
Financial liabilities held for trading				
– Precious metal relevant financial liabilities	–	7,530	–	7,530
– Short position in equity securities	–	–	–	–
Subtotal	–	7,530	–	7,530
Financial liabilities designated at fair value through profit or loss				
– Precious metal contracts with other banks	–	3,498	–	3,498
– Certificates of deposit issued	–	3,595	–	3,595
– Debt securities issued	8,938	–	–	8,938
– Others	–	15	–	15
Subtotal	8,938	7,108	–	16,046
Derivative financial liabilities	621	10,531	–	11,152
Total	9,559	25,169	–	34,728

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

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

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

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

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

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

Fair value of foreign exchange forwards contracts in derivative financial assets is measured by discounting the differences between the contract prices and market prices of the foreign exchange forwards contracts. The discount rates used are the applicable RMB denominated swap yield curve as at the end of the reporting period.

Fair value of foreign exchange options is measured using the Black-Scholes model, applying applicable foreign exchange spot rates, foreign exchange yield curves and exchange rate volatilities. The above market data used are quoted price in an active market, provided by Bloomberg, Reuters and other market information providers.

Fair value of interest rate swaps in derivative financial assets is measured by discounting the expected receivable or payable amounts under the assumption that these swaps had been terminated at the end of reporting date. The discount rates used are the related RMB denominated swap yield curve as at the end of reporting period.

Dealing price of the investment fund derived from the net asset values of the investment funds with reference to observable quoted price of underlying investment portfolio in active market is used as the basis of determining the market price for recurring fair value measurements categorised within Level 2.

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

	Fair value as at 31 December 2017	Valuation techniques	Unobservable input
Unlisted available-for-sale equity investments	779	Market comparison approach	Liquidity discount
Unlisted available-for-sale equity investments	727	Market approach	Transaction of near delivery rate
Unlisted available-for-sale equity investments	499	Discounted cash flow	Risk-adjusted discount rate, cash flow
Unlisted available-for-sale fund investments	161	Discounted cash flow	Risk-adjusted discount rate, cash flow

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

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

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

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

Assets	Tradable financial assets-debt securities	Derivative financial assets	Available-for-sale financial assets	Total
At 1 January 2017	–	–	1,873	1,873
Profit or loss				
– In profit or loss	–	–	(4)	(4)
– In other comprehensive income	–	–	(67)	(67)
Purchases	–	–	1,618	1,618
Disposals and settlement on maturity	–	–	(1,186)	(1,186)
Exchange difference	–	–	(68)	(68)
At 31 December 2017	–	–	2,166	2,166
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	–	(4)	(4)

Assets	Financial assets designated at fair value through profit or loss-debt securities	Derivative financial assets	Available-for-sale financial assets	Total
At 1 January 2016	–	4	1,242	1,246
Profit or loss				
– In profit or loss	–	–	(5)	(5)
– In other comprehensive income	–	–	199	199
Purchases	–	–	435	435
Disposals and settlement on maturity	–	(4)	(4)	(8)
Exchange difference	–	–	6	6
At 31 December 2016	–	–	1,873	1,873
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	–	(5)	(5)

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

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

Liabilities	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued
At 1 January 2017	–
In profit or loss	–
Issues	–
Disposals and settlement on maturity	–
At 31 December 2017	–
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	–
At 1 January 2016	2,302
In profit or loss	121
Issues	–
Disposals and settlement on maturity	(2,423)
At 31 December 2016	–
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	–

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

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

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

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

	2017 Effect on profit or loss or other comprehensive income	
	Favourable	**(Unfavourable)**
Available-for-sale financial assets		
– Equity investments	**201**	**(201)**
– Investments in funds	**16**	**(16)**

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

(3) Transfers between level 1 and level 2 for financial instruments which are measured at fair value on an on-going basis, the reasons for these transfers and the policy for determining when transfers between level 1 and level 2 are deemed

During the year ended 31 December 2017, there were no transfers between level 1 and level 2 for financial instruments which are measured at fair value on an on-going basis.

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

During the year ended 31 December 2017, the Group has not changed the valuation technique of the above financial assets which are measured at fair value on an on-going basis.

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

(1) Financial Assets

The Group's financial assets that are not measured at fair value mainly include cash, balances with central banks, balances and placements with banks and other financial institutions, amounts held under resale agreements, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets will mature within 1 year, and their carrying value approximate their fair value.Loans and advances are stated at amortised costs less allowances for impairment loss (Note 19). Loans and advances are mostly priced at floating rates close to the PBOC rates and repriced at market rates at least annually, and impairment allowance is made to reduce the carrying amount of impaired loans to estimate the recoverable amount. Accordingly, the carrying value of loans and advances is close to the fair value.

Held-to-maturity investments are stated at amortised costs less impairment, and the fair value of listed debt securities classified as held-to-maturity investments are disclosed in Note 21(c).

The carrying value, fair value and fair value hierarchy of held-to-maturity investments not measured or disclosed at fair value are listed as below ：

The fair value measurements for Level 1 are based on quoted price in active market, for example, released by Bloomberg. For Level 2, the latest valuation results released by China bond pricing system are used to measure fair value of bonds denominated in RMB. The Level 2 category also includes foreign currency bonds without active quoted price, which are measured by Bloomberg comprehensive valuation. The Level 3 adopts expected cash flow valuation technique to measure fair value.

	2017				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Held-to-maturity investments	**558,218**	**542,664**	**2,967**	**539,697**	**–**

	2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Held-to-maturity investments	477,064	484,277	2,786	481,491	–

56. Risk management *(continued)*

(g) Fair value information *(continued)*

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

(2) Financial Liabilities

Financial liabilities mainly include deposits from customers, amounts due to banks and other financial institutions, and debts securities issued by the Group. The carrying value of financial liabilities approximate their fair value at the end of the reporting period of the year presented, except the financial liabilities set out below:

	2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated notes issued	33,977	33,945	–	33,945	–
Long-term debt securities issued	63,376	63,224	–	63,224	–
Total	97,353	97,169	–	97,169	–

	2016				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Subordinated notes issued	31,356	32,399	–	32,399	–
Long-term debt securities issued	40,959	40,925	–	40,925	–
Total	72,315	73,324	–	73,324	–

57. Material related-party transactions

(a) Material connected person information

The Bank's main shareholders and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB13,750 million	7,559,427,375	29.97% (note (i) (ix))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service, etc.	The largest shareholder's parent company	Limited company	Li Jianhong
China Merchants Steam Navigation Co., Ltd. (CMSNCL)	Beijing	RMB5,900 million	3,289,470,337	13.04% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services, etc.	The largest shareholder	Limited company	Li Jianhong
Shenzhen Yan Qing Investment Development Co.,Ltd.	Shenzhen	RMB600 million	1,258,542,349	4.99%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Liu Jie
Shenzhen Chu Yuan Investment and Development Co., Ltd.	Shenzhen	RMB600 million	944,013,171	3.74%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Liu Jie
China Merchants Finance Investment Holdings Co., Ltd.	Shenzhen	RMB600 million	1,147,377,415	4.55%	–	Invest and set up industries, domestic commerce, materials supply and marketing business, etc.	Shareholder	Limited company	Hong Xiaoyuan
Best Winner Investment Co., Ltd.	British Virgin Islands	USD0.05 million	386,924,063	1.53%	–	–	Shareholder	Joint stock limited company	–
China Merchants Union (BVI) Limited	British Virgin Islands	USD0.06 million	477,903,500	1.89%	–	–	Shareholder	Limited company	–
China Merchants Industry Development (Shenzhen) Limited	Shenzhen	USD10 million	55,196,540	0.22%	–	Invest and set up industries, enterprise management consulting and investment consulting, etc.	Shareholder	Limited company	Wang Xiaoding

57. Material related-party transactions *(continued)*

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

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
Anbang Insurance Group Co.,Ltd	Beijing	RMB61,900 million	2,934,094,716	11.63% (note(iii))	–	Insurance	Shareholder's parent company	Joint stock limited company	(note(iii))
Anbang Property & Casualty Insurance Co., Ltd.	Beijing	RMB37,000 million	2,934,094,716	11.63% (note(iii))	–	Insurance	Shareholder	Joint stock limited company	Ye Jing
China COSCO Shipping Corporation Limited	Beijing	RMB11,000 million	2,515,193,034	9.97% (note(iv))	–	International shipping business, import and export of goods and technology, etc.	Shareholder's parent company	Limited company	Xu Lirong
China Ocean Shipping Co., Ltd.	Beijing	RMB16,191 million	1,574,729,111	6.24%	–	Transportation business, shipping space booking, time charter, voyage charter, leasing, constructing and trading ships, etc.	Shareholder	Limited company	Xu Lirong
China COSCO Shipping (Guangzhou) Co., Ltd.	Guangzhou	RMB32 million	696,450,214	2.76%	–	Shipping business	Shareholder	Limited company	Shou Jian
China COSCO Shipping (Shanghai) Co., Ltd.	Shanghai	RMB1,399 million	75,617,340	0.30%	–	Shipping business, leasing business, ship repairing and building etc.	Shareholder	Limited company	Zhao Bangtao
Guangzhou Haining Maritime Technology Service Co., Ltd.	Guangzhou	RMB2 million	103,552,616	0.41%	–	Business services	Shareholder	Limited company	Li Cui
China COSCO Shipping Financial Holdings Co., Ltd.	Hong Kong	HKD500 million	54,721,930	0.22%	–	Leasing business, financing business, insurance business etc.	Shareholder	Limited company	–
Shenzhen Tri-Dynas Oil & Shipping Co., Ltd.	Shenzhen	RMB299 million	10,121,823	0.04%	–	Ship purchasing and marketing business, shipping agency, leasing business, shipping business etc.	Shareholder	Limited company	Zheng Zhuilong
Hebei Port Group Co., Ltd.	Qinhuangdao	RMB8,000 million	303,444,770	1.20% (note(v))	–	Port construction and investment management, port leasing and maintenance business, handling and warehousing business etc.	Shareholder	Limited company	Cao Ziyu

57. Material related-party transactions *(continued)*

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

Company name	Registered location	Issued and fully paid capital	No. of Shares of the Bank held by the Company	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	The relationship with the Bank	Legal form	Legal representative
China Communications Construction Group LTD	Beijing	RMB5,855 million	571,845,625	2.27% (note (vi ,vii))	–	General contraction for construction	Shareholder's parent company	Limited company	Liu Qitao
China Communications Construction Co., Ltd	Beijing	RMB16,175 million	450,164,945	1.78%	–	General contraction for construction, leasing and repair, technical consulting service, imports and exports, investment and management business	Shareholder	Joint stock limited company	Liu Qitao
Shanghai Automotive Industry Corporation (Group)	Shanghai	RMB21,599 million	432,125,895	1.71% (note (viii))	–	Production and sale of vehicles, asset management business, domestic trade business, consulting service	Shareholder's parent company	Limited company	Chen Hong
SAIC Motor Corporation Limited	Shanghai	RMB11,683 million	432,125,895	1.71%	–	Production and sale of vehicles, consulting service, imports and exports	Shareholder	Joint stock limited company	Chen Hong
CMB International Capital Holdings Corporation Limited (CMBICHC)	Hong Kong	HKD4,129 million	–	–	100%	Financial advisory services	Subsidiary	Limited company	Tian Huiyu
CMB Financial Leasing Company Limited (CMBFLC)	Shanghai	RMB6,000 million	–	–	100%	Finance lease	Subsidiary	Limited company	Lian Bolin
Wing Lung Bank Limited (WLB)	Hong Kong	HKD1,161 million	–	–	100%	Banking	Subsidiary	Limited company	Tian Huiyu
China Merchants Fund Management Co., Ltd. (CMFM)	Shenzhen	RMB1,310 million	–	–	55%	Asset Management	Subsidiary	Limited company	Li Hao

Note:

(i) CMG holds 29.97% of the Bank (2016: 29.97%) through its subsidiaries.

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

(iii) Anbang Insurance Group Company Ltd. ("AIGC") holds 11.63% of the Bank (2016: 10.72%) through its subsidiary. According to the announcement of China Insurance Regulatory Commission ("CIRC") [2018] No. 5. AIGC's former Chairman and General Manager Wu Xiaohui being under suspicion of economic crimes, was prosecuted according to law. Since February 23 2018, CIRC and other authorities concerned have formed a working group to take over Anbang Group, and the working group's leader will exercise the legal representative duties.

(iv) China COSCO Shipping Corporation Ltd. holds 9.97% of the Bank (2016: 9.97%) through its subsidiaries.

(v) Hebei Port Group Company Ltd. directly holds 1.20% of the Bank (2016: 1.21%).

(vi) China Communications Construction Group LTD ("China Communications Construction Group") holds 2.27% of the bank through its subsidiaries (2016: 3.05%).

(vii) China Communications Construction Group LTD holds the bank through its subsidiaries (include China Communications Construction Co., Ltd.).

(viii) Shanghai Automotive Industry Corporation (Group) ("Shanghai Automotive Industry Group") holds 1.71% of the bank through its subsidiary (SAIC Motor Corporation Limited) (2016: 1.71%).

(ix) The sum of the direct ratio of CMG's shareholdings in the Bank and the above-mentioned relevant numbers may differ slightly in the mantissa due to rounding.

57. Material related-party transactions *(continued)*

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

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

Name of related party	2017	2016
CMG	RMB13,750,000,000	RMB13,750,000,000
CMSNCL	RMB5,900,000,000	RMB5,900,000,000
Shenzhen Yan Qing Investment Development Co., Ltd.	RMB600,000,000	RMB600,000,000
Shenzhen Chu Yuan Investment and Development Company Ltd.	RMB600,000,000	RMB600,000,000
China Merchants Finance Investment Holdings Co., Ltd.	RMB600,000,000	RMB600,000,000
Best Winner Investment Ltd.	USD50,000	USD50,000
China Merchants Union (BVI)Ltd.	USD60,000	USD60,000
China Merchants Industry Development (Shenzhen) Co., Ltd.	USD10,000,000	USD10,000,000
Anbang Insurance Group Co., Ltd	RMB61,900,000,000	RMB61,900,000,000
Anbang Property & Casualty Insurance Co., Ltd.	RMB37,000,000,000	RMB37,000,000,000
China COSCO Shipping Corporation Limited	RMB11,000,000,000	RMB11,000,000,000
China Ocean Shipping Co., Ltd.	RMB16,191,351,300	RMB16,191,351,300
China COSCO Shipping (Guangzhou) Co., Ltd.	RMB3,191,200,000	RMB3,191,200,000
Guangzhou Haining Maritime Technology Service Co., Ltd.	RMB2,000,000	RMB2,000,000
China COSCO Shipping (Shanghai) Co., Ltd.	RMB1,398,941,000	RMB1,398,941,000
China COSCO Shipping Financial Holdings Co., Ltd.	HKD500,000,000	HKD500,000,000
Shenzhen Tri-Dynas Oil & Shipping Co., Ltd.	RMB299,020,000	RMB299,020,000
Hebei Port Group Co., Ltd.	RMB8,000,000,000	RMB8,000,000,000
CMBICHC	HKD4,129,000,000	HKD4,129,000,000
CMBFLC	RMB6,000,000,000	RMB6,000,000,000
WLB	HKD1,160,950,575	HKD1,160,950,575
CMFM	RMB1,310,000,000	RMB210,000,000

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	The Bank held by the largest shareholder		The subsidiaries held by the Bank							
	CMSNCL		CMBICHC		CMBFLC		WLB		CMFM	
	RMB	%	HKD	%	RMB	%	HKD	%	RMB	%
At 1 January 2017	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	115,500,000	55.00
Change	–	–	–	–	–	–	–	–	605,000,000	–
At 31 December 2017	3,289,470,337	13.04	4,129,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	720,500,000	55.00

57. Material related-party transactions *(continued)*

(b) Transaction terms and conditions

In each year, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The opinion of the directors is that the Group's material related-party transactions were all entered into normal commercial terms. The banking transactions were priced at the market rates at each time of transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2017	2016
Short-term loans	4.35%	4.35%
Medium to long-term loans	4.75% to 4.90%	4.75% to 4.90%
Demand deposits	0.35%	0.35%
Time deposits	1.10% to 2.75%	1.10% to 2.75%

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

(c) Shareholders and their related companies

The Bank's largest shareholder CMG holds 29.97% (2016: 29.97%) shares of the Bank through its subsidiaries as at 31 December 2017 (among them 13.04% shares is held by CMSNCL (2016: 13.04%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	2017	2016
On-balance sheet:		
– Loans and advances to customers	11,122	8,482
– Investments	5,109	3,662
– Deposits from customers	53,686	100,553
– Placements	–	–
Off-balance sheet:		
– Irrevocable guarantees	1,489	2,135
– Irrevocable letters of credit	91	213
– Bills of acceptances	36	222
– Factoring	–	5
Interest income	707	688
Interest expense	758	767
Net fee and commission income	404	611
Operating expenses	(31)	(15)
Other net income	34	(115)

57. Material related-party transactions *(continued)*

(d) Companies controlled by or be significantly influenced by or appointed common directors, senior management and/or supervisors of the Bank other than those under Note 57(c) above

	2017	2016
On-balance sheet:		
– Loans and advances to customers	6,955	3,659
– Investments	1,063	955
– Deposits from customers	25,327	21,448
Off-balance sheet:		
– Irrevocable guarantees	673	2,671
– Acceptance bills	–	152
Interest income	536	310
Interest expense	634	299
Net fee and commission income	700	130
Operating expenses	(1,178)	(679)
Other net income	22	(12)

(e) Associates and joint ventures other than those under Note 57(c) above

	2017	2016
On-balance sheet:		
– Loans and advances to customers	2,665	3,047
– Deposits from customers	902	921
– Placements	2,700	3,700
Off-balance sheet:		
– Irrevocable guarantees	8,700	8,701
Interest income	37	37
Interest expense	16	4
Net fee and commission income	928	1,063
Operating expenses	11	8
Other net income	1	–

57. Material related-party transactions *(continued)*

(f) Other shareholders holding more than 5% shares

	2017	2016
On-balance sheet:		
– Loans and advances to customers	**5,848**	5,572
– Investments	**200**	200
– Deposits from customers	**13,880**	16,328
Off-balance sheet:		
– Irrevocable guarantees	**5,898**	5,627
Interest income	**43**	16
Interest expense	**274**	12
Net fee and commission income	**905**	1,282
Operating expenses	**–**	–
Other net income	**13**	–

(g) Subsidiaries

	2017	2016
On-balance sheet		
– Balances with banks and other financial institutions	**1,078**	5,758
– Placements with banks and other financial institutions	**25,782**	9,338
– Loans and advances to customers	**2,196**	348
– Investments	**1,330**	93
– Deposits from banks and other financial institutions	**7,973**	29,715
– Placements from banks and other financial institutions	**–**	–
– Deposits from customers	**2,835**	3,866
Off-balance sheet		
– Irrevocable guarantees	**3,256**	3,494
– Bills of acceptances	**–**	120
Interest income	**699**	230
Interest expense	**800**	284
Net fee and commission	**1,596**	1,578
Operating expenses	**12**	10
Other net income	**16**	(5)

All significant balances and transactions between the Bank and its subsidiaries have been eliminated in the consolidated financial statements.

57. Material related-party transactions *(continued)*

(h) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	47,557	44,387
Discretionary bonuses (Note 8(i))	–	14,942
Share-based payment	46,494	6,896
Contributions to defined contribution retirement schemes	5,543	5,148
Total	99,594	71,373

The above share-based payments represent the estimated fair value of the share appreciation rights granted (Note 38(a)(iii)) to senior management under the Bank's H share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in Note 2(u)(iii); and the amounts have been charged to the consolidated statement of profit or loss and other comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

(i) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2017 and 31 December 2016.

58. Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the subsidiaries. As CMFM's net assets and net profit are not material to the Group, there is no subsidiary of the Group which has material non-controlling interests during the reporting period.

a) Perpetual debt capital

The perpetual debt capital is issued by the bank's subsidiary, WLB, on 27 April 2017, with the aggregate nominal amount is USD170 million as follows:

	Principal	Distributions/Paid	Total
At 1 January 2017	–	–	–
Issue during the period (i)	1,170	–	1,170
Distributions in 2017	–	29	29
Paid in 2017	–	(29)	(29)
At 31 December 2017	1,170	–	1,170

(i) There is no maturity of the instruments and the payments of distribution can be cancelled at the discretion of the issuers. Cancelled interest is not cumulative. There is no obligation of contract that deliver the cash payment to other parties. WLB declared and paid distributions at 5.2% set on the contract items of perpetual debt capital.

59. Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose vehicles. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitisation of credit assets

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. Except for those finance leases receivable mentioned below, as the Group has transferred the ownership of the loans amounted to RMB73,698 million (2016: 19,976 million), as well as substantially all the risks and rewards of the loans have been transferred, the full amount of such securitised loans were derecognised.

As the underlying assets, certain finance leases receivable did not meet the criteria of derecognition, the Group did not derecognize such finance leases receivable, the consideration received was recognised as financial liabilities. As at 31 December 2017, the carrying amount of such transferred but not derecognised finance leases receivable amounted to RMB3,668 million (31 December 2016: 2,646 million) and correspondently the carrying amount of recognised financial liabilities is RMB2,439 million (31 December 2016: 2,227 million).

Transactions of credit assets

As at 31 December 2017, the Group has transferred credit assets to third party institutions directly amounted to RMB46,338 million (31 December 2016: RMB20,375 million); RMB45,817 million of these transferred credit assets are transferred to structured entities (31 December 2016: 16,233 million). The Group carried out an assessment based on the criteria as detailed in Note 2(h)(vi), Note 2(h)(x) and concluded that these transferred assets qualified for full de-recognition.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities, discounted bills held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

60. Interests in unconsolidated structured entities

(a) Interest in the structured entities sponsored by third party institutions

The Group holds interests in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include wealth management products, asset management schemes, trust beneficiary rights, assets backed securities and investments in funds, and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate income from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 31 December 2017 and 31 December 2016 in the structured entities sponsored by third party institutions and an analysis of the line items in the statement of financial position as at 31 December 2017 and 31 December 2016 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	31 December 2017						
	Carrying amount						
	Amounts held under resale agreements	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total	Maximum exposure
Wealth management products	–	–	–	–	–	–	–
Asset management schemes	1,048	–	–	–	446,603	447,651	447,651
Trust beneficiary rights	–	–	–	–	93,993	93,993	93,993
Asset backed securities	–	–	3,437	563	4,427	8,427	8,427
Investment in funds	–	401	46,547	–	–	46,948	46,948
Total	1,048	401	49,984	563	545,023	597,019	597,019

	31 December 2016						
	Carrying amount						
	Amounts held under resale agreements	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total	Maximum exposure
Wealth management products	–	–	–	–	55,216	55,216	55,216
Asset management schemes	1,050	–	–	–	369,168	370,218	370,218
Trust beneficiary rights	52	–	–	–	83,548	83,600	83,600
Asset backed securities	–	224	3,847	2,187	118	6,376	6,376
Investment in funds	–	109	43,209	–	–	43,318	43,318
Total	1,102	333	47,056	2,187	508,050	558,728	558,728

The maximum exposures held by the Group in the subordinated tranches of assets backed securities and investments in funds are the fair value of the assets at the reporting date. The maximum exposures in the wealth management products, asset management schemes, trust beneficiary rights, senior tranches of assets backed securities are the amortised cost of the assets held by the Group at the reporting date in accordance with the line items of these assets recognised in the statement of financial positions.

60. Interests in unconsolidated structured entities *(continued)*

(b) Interest in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal- guaranteed wealth management products, funds and asset management schemes. The nature and purpose of these structured entities are to generate income from managing assets on behalf of investors. These structured entities are financed through the issue of investment products to investors. Interest held by the Group includes fees charged on management services provided.

As at 31 December 2017, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB2,177,856 million (31 December 2016: RMB2,375,766 million).

As at 31 December 2017, the amount of the unconsolidated mutual funds, which are sponsored by the Group, is RMB392,292 million (31 December 2016: RMB345,450 million).

As at 31 December 2017, the amount of the unconsolidated asset management schemes, which are sponsored by the Group, is RMB264,591 million (31 December 2016: RMB352,446 million).

As at 31 December 2017, the balance of amounts held under resale agreements and placement with banks and other financial institutions between the Group and its non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB201,641 million (31 December 2016: RMB274,393 million) and RMB9,013 million (31 December 2016: RMB50,283 million) respectively. The above transactions were made in accordance with normal business terms and conditions.

During year ended 31 December 2017, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB14,000 million (2016: RMB15,470 million).

During the year ended 31 December 2017, the amount of management fee income received from the unconsolidated mutual funds by the Group is RMB1,533 million (2016: RMB1,292 million).

During the year ended 31 December 2017, the amount of management fee income received from the unconsolidated asset management schemes by the Group is RMB1,027 million (2016: RMB939 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2017 with a maturity date before 31 December 2017 was RMB3,289,090 million (2016: RMB3,081,595 million).

61. Non-adjusting events after the reporting period

Save as otherwise disclosed in Note 48(b), the Group has no significant post reporting date event subsequent to the end of the reporting period as at the date of approval to the consolidated financial statements.

62. Comparative figures

Since 2017, the Group has allocated the additional provision to each operating segment and restated the comparable figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

In accordance with the advanced capital management approach approved by CBRC in April 2014, the Group calculated core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	2017	2016
Core tier-1 capital adequacy ratio	**12.06%**	11.54%
Tie-1 capital adequacy ratio	**13.02%**	11.54%
Capital adequacy ratio	**15.48%**	13.33%
Components of capital base		
Core tier-1 capital:		
Qualifying portion of share capital	**25,220**	25,220
Qualifying portion of capital reserve	**63,272**	68,600
Surplus reserves	**46,131**	39,678
Regulatory general reserve	**70,907**	67,839
Retained profits	**239,560**	197,947
Qualifying portion of non-controlling interests	**208**	303
Others (note (i))	**(817)**	1,625
Total core tier-1 capital	**444,481**	401,212
Regulatory deductions from core tier-1 capital	**18,792**	12,450
Net core tier-1 capital	**425,689**	388,762
Additional tier-1 capital (note (ii))	**34,093**	18
Net tier-1 capital	**459,782**	388,780
Tier-2 capital:		
Qualifying portion of tier-2 capital instruments and their premium	**30,000**	30,000
Surplus provision for loans impairment	**54,586**	29,299
Qualifying portion of non-controlling interests	**2,166**	1,037
Total tier-2 capital	**86,752**	60,336
Regulatory deductions from core tier-2 capital	**–**	–
Net tier-2 capital	**86,752**	60,336
Net capital	**546,534**	449,116
Total risk-weighted assets	**3,530,745**	3,368,990

Notes:

(i) : Others represent exchange reserve of foreign currency consolidated financial statements under CBRC's Administrative Measures on the Capital of Commercial Banks (Trial).

(ii) : The Group's additional tier-1 capital includes qualifying portion of non-controlling interests, preferred shares and etc.

(A) Capital adequacy ratio *(continued)*

In 2017, in accordance with the advanced capital management approach approved by CBRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 11.70%, tier-1 capital adequacy ratio is 12.69%, capital adequacy ratio is 15.24%, net capital is RMB483,546 million and total risk-weighted assets is RMB3,173,532 million.

In 2017, by the method of calculating credit risk using the risk-weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 10.01%, tier-1 capital adequacy ratio is 10.81%,capital adequacy ratio is 12.66%, net capital is RMB538,761 million and total risk-weighted assets is RMB4,254,180 million.

In 2017, by the method of calculating credit risk using the risk-weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Bank's core tier-1 capital adequacy ratio is 9.50%, tier-1 capital adequacy ratio is 10.30%, capital adequacy ratio is 12.16%, net capital is RMB475,774 million and total risk-weighted assets is RMB3,911,286 million.

(B) Leverage ratio

In accordance with the CBRC's Administrative Measures on Leverage Ratio of Commercial Banks (Revision) issued in 2015 and effective on 1 April 2015, the Group's leverage ratio and relevant components were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries.

Summary comparison of accounting assets and leverage ratio exposure measure:

	2017	2016
Total consolidated assets as per published financial statements	6,297,638	5,942,311
Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(6,304)	(3,615)
Adjustments for fiduciary assets	–	–
Adjustments for derivative financial instruments	30,435	19,680
Adjustment for securities financing transactions	28,849	15,066
Adjustment for off-balance sheet items	977,930	797,101
Other adjustments	(18,792)	(12,450)
Balance of adjusted on-balance sheet and off-balance sheet assets	7,309,756	6,758,093

(B) Leverage ratio *(continued)*

Leverage ratio, net tier-1 capital, on-balance sheet and off-balance sheet exposures and other information:

	2017	2016
On-balance sheet items (excluding derivatives and securities financing transactions (SFT))	6,019,868	5,651,310
Less: Asset amounts deducted in determining Basel III Tier 1 capital	(18,792)	(12,450)
Balance of adjusted on-balance sheet assets (excluding derivatives and SFTs)	6,001,076	5,638,860
Replacement cost associated with all derivatives transactions (net of eligible cash variation margin)	18,088	14,851
Add-on amounts for potential future exposure associated with all derivatives transactions	29,748	12,140
Gross-up for derivatives collateral provided where deducted from the balance sheet assets	–	–
Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions	–	–
Less: Exempted central counterparty leg of client-cleared trade exposures	–	–
Effective notional amount of written credit derivatives	1,515	1,377
Less: Adjusted effective notional deductions for written credit derivatives	–	–
Total derivative exposures	49,351	28,368
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	252,550	278,699
Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
Counterparty credit risk exposure for SFT assets	28,849	15,066
Agent transaction exposures	–	–
Total securities financing transaction exposures	281,399	293,765
Off-balance sheet exposure at gross notional amount	1,754,836	1,379,339
Less: Adjustments for conversion to credit equivalent amounts	(776,906)	(582,238)
Balance of adjusted off-balance sheet assets	977,930	797,101
Net tier 1 capital	459,782	388,780
Balance of adjusted on-balance sheet and off-balance sheet assets	7,309,756	6,758,094
Leverage ratio	6.29%	5.75%

(C) Liquidity coverage ratio

In accordance with CBRC's Administrative Measures on Liquidity Coverage Ratio of Commercial Banks effective on 31 December 2015, the Group's liquidity coverage ratio and relevant components were as follows. The basis used herein may differ from those adopted in Hong Kong or other countries. For the quarter ended 31 December 2017, the Group's liquidity coverage ratio was as follows:

	Quarter ended 31 December 2017		Quarter ended 31 December 2016	
	Unweighted amount (Average value)	Weighted amount (Average value)	Unweighted amount (Average value)	Weighted amount (Average value)
High quality liquid assets				
Total high quality liquid assets (HQLA)		596,666		637,522
Cash outflows				
Retail deposits and small business funding, of which:				
– Stable deposits	322,474	16,124	212,072	10,604
– Less stable deposits	1,154,427	115,443	1,293,974	129,397
Unsecured wholesale funding, of which:				
– Business relations deposits (excluding correspondent banks operations)	1,636,910	406,679	1,232,010	306,159
– Non-business relations deposits (including all the counterparties)	1,192,084	647,894	1,333,629	769,220
– Liabilities and obligations arising from unsecured funding	63,258	63,258	1,092	1,092
Secured funding		42,401		49,960
Additional requirements, of which:				
– Cash outflows arising from derivative contracts and other transactions arising from related collateral requirements	52,145	52,134	36,889	36,697
– Cash outflows arising from secured debt instruments funding	–	–	–	–
– Committed credit facilities and committed liquidity facilities	743,527	42,699	564,728	32,395
Other contractual lending obligations	19,230	19,230	38,540	38,540
Other contingent funding obligations	2,668,869	18,562	2,227,769	26,091
Total cash outflows		1,424,424		1,400,155
Cash inflows				
Secured lending transactions (including reverse repurchase agreements and securities borrowed)	175,291	175,291	179,520	179,520
Cash inflows from fully honoured payments	868,522	611,834	945,283	618,785
Other cash inflows	53,418	51,686	38,545	37,774
Total cash inflows		838,811		836,079
		Adjusted value		Adjusted value
TOTAL HQLA		596,666		637,522
TOTAL NET CASH OUTFLOWS		585,613		564,076
LCR (%) [(i)]		101.90%		114.59%

Note:

(i) LCR is calculated based on the arithmetic mean of the item as at the end of each month for the latest quarter during the reporting period.

(D) Currency concentrations other than RMB

	2017			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	471,789	215,597	84,678	772,064
Spot liabilities	(545,168)	(185,566)	(69,890)	(800,624)
Forward purchased	490,431	36,210	83,433	610,074
Forward written	(398,527)	(36,478)	(91,187)	(526,192)
Net option position	(3,145)	(184)	80	(3,249)
Net long position	15,380	29,579	7,114	52,073
Net structural position	(3,629)	(29,145)	13	(32,761)

	2016			
	USD	HKD (in millions of RMB)	Others	Total
Non-structural position				
Spot assets	622,831	241,063	76,138	940,032
Spot liabilities	(666,434)	(207,309)	(75,224)	(948,967)
Forward purchased	741,635	63,786	79,067	884,488
Forward written	(630,853)	(59,094)	(75,022)	(764,969)
Net option position	(48,662)	(4,180)	(1,706)	(54,548)
Net long position	18,517	34,266	3,253	56,036
Net structural position	(10,483)	(30,218)	(509)	(41,210)

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investment properties, property and equipment, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

(E) International claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims in foreign currencies on third parties within the Mainland China as international claims.

International claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills, certificates of deposit and securities investment.

International claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk is transferred only when the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2017			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	96,112	9,758	73,302	179,172
Asia Pacific excluding Mainland China	31,322	35,942	149,651	216,915
– of which attributed to Hong Kong	20,810	35,912	139,530	196,252
Europe	15,610	2,057	5,804	23,471
North and South America	11,553	1,863	34,515	47,931
Total	154,597	49,620	263,272	467,489

	2016			
	Banks and other financial institutions	Public sector entities	Others	Total
Foreign currencies transactions in Mainland China	80,537	2,904	97,458	180,899
Asia Pacific excluding Mainland China	38,097	20,897	155,247	214,241
– of which attributed to Hong Kong	19,920	20,857	144,295	185,072
Europe	16,384	1,929	5,320	23,633
North and South America	12,571	850	46,553	59,974
Total	147,589	26,580	304,578	478,747

(F) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

	2017		2016	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Manufacturing	251,851	33	275,710	38
Wholesale and retail	206,973	42	214,859	47
Transportation, storage and postal services	205,022	35	175,548	38
Property development	197,782	66	174,642	66
Leasing and commercial services	124,408	29	97,464	37
Production and supply of electric power, heating power, gas and water	121,824	38	104,393	39
Construction	83,433	33	83,871	30
Telecommunications, software and IT services	67,997	31	55,806	48
Financial concerns	44,381	52	35,891	63
Water, environment and public utilities management	43,901	50	35,096	35
Mining	39,086	44	46,397	37
Others	56,838	38	62,863	36
Corporate loans and advances subtotal	1,443,496	41	1,362,540	43
Discounted bills	115,888	100	154,517	100
Residential mortgage	825,797	100	720,323	100
Credit cards	491,179	–	408,951	–
Micro-finance loans	310,969	94	281,653	93
Others	136,410	70	109,924	79
Retail loans and advances subtotal	1,764,355	69	1,520,851	70
Gross loans and advances to customers	3,323,739	58	3,037,908	60

(F) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

	2017		2016	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Property development	63,209	58	52,922	59
Financial concerns	47,198	40	44,489	35
Transportation, storage and postal services	25,613	90	18,281	70
Manufacturing	14,221	58	21,732	32
Wholesale and retail	13,934	73	13,892	85
Leasing and commercial services	13,444	35	5,005	47
Telecommunications, software and IT services	11,371	44	21,686	66
Production and supply of electric power, heating power, gas and water	7,065	49	4,276	52
Mining	4,211	89	3,082	69
Construction	1,937	81	802	56
Water, environment and public utilities management	419	17	147	72
Others	17,743	67	17,716	44
Corporate loans and advances subtotal	220,365	58	204,030	53
Residential mortgage	7,613	100	8,005	100
Credit cards	204	–	247	–
Micro-finance loans	1,747	98	1,849	–
Others	11,376	83	9,642	99
Retail loans and advances subtotal	20,940	90	19,743	89
Gross loans and advances to customers	241,305	61	223,773	56

(F) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

The overdue amounts, impaired amounts of below industry sectors of the Group are as below:

	2017					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of profit or loss during the year	Impaired loans and advances written off during the year
Manufacturing	**16,333**	**17,377**	**15,006**	**26,118**	**26,358**	**9,031**
Residential mortgage	**3,869**	**2,734**	**–**	**11,273**	**4,248**	**285**
Micro-finance loans	**6,277**	**5,548**	**–**	**9,103**	**3,279**	**3,485**
Credit card	**9,787**	**5,467**	**–**	**16,701**	**9,029**	**4,737**

	2016					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of profit or loss during the year	Impaired loans and advances written off during the year
Manufacturing	19,727	18,969	12,733	12,189	24,446	17,089
Residential mortgage	4,313	3,022	–	7,219	1,513	142
Micro-finance loans	6,904	4,626	–	7,539	4,677	6,732
Credit card	10,561	5,715	–	11,884	7,570	2,336

(G) Overdue loans and advances to customers

(i) By geographical segments

	2017	2016
Headquarters	4,495	5,338
Yangtze River Delta region	7,813	8,731
Bohai Rim region	5,990	4,463
Pearl River Delta and West Coast region	7,758	6,126
Northeast region	4,061	2,730
Central region	5,119	6,492
Western region	9,334	12,677
Outside Mainland China	42	–
Subsidiaries	1,067	1,316
Total	45,679	47,873

(ii) By overdue period

	2017	2016
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	6,570	8,892
– between 6 and 12 months (inclusive)	10,254	15,388
– over 12 months	28,855	23,593
Total	45,679	47,873
As a percentage of total gross loans and advances:		
– between 3 and 6 months (inclusive)	0.18%	0.27%
– between 6 and 12 months (inclusive)	0.29%	0.47%
– over 12 months	0.81%	0.72%
Total	1.28%	1.46%

(G) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	2017	2016
Secured portion of overdue loans and advances	**11,494**	13,961
Unsecured portion of overdue loans and advances	**34,185**	33,912
Value of collateral held against overdue loans and advances	**13,239**	19,168
Provision of overdue loans and advances for which impairment losses are individually assessed	**28,088**	23,332

The amount of the Group's overdue loans and advances to financial institutions as at 31 December 2017 was RMB1 million (2016: RMB1 million).

Note: The above analysis represents loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular installments, if part of the installments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collateral of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(H) Rescheduled loans and advances to customers

	2017		2016	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers (Note)	**18,009**	**0.51%**	16,671	0.51%
Less:				
– rescheduled loans and advances overdue more than 90 days	**11,293**	**0.32%**	8,605	0.26%
Rescheduled loans and advances overdue less than 90 days	**6,716**	**0.19%**	8,066	0.25%

Note: Represents the restructured non-performing loans.

The amount of the Group's rescheduled loans and advances to financial institutions as at 31 December 2017 was 1 million (2016: 1 million).

(I) Non-bank mainland china exposures

The Bank is a commercial bank incorporated in the Mainland China with its banking business primarily conducted in the Mainland China. As of 31 December 2017 and 31 December 2016, most of the Bank's exposures arose from businesses with Mainland China non-bank institutions or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(J) Corporate governance

Board committees

The Board of Directors has established six committees including the Strategy Committee, Audit committee, Related Party Transactions Control Committee, Risk and Capital Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy committee

Main authorities and duties of the Strategy Committee are:

- to formulate the operational goals and medium-to-long term development strategies of the Bank, and make an overall assessment on strategic risks;
- to consider material investment and financing plans and make proposals to the Board of Directors;
- to supervise and review the implementation of the annual operational and investment plans;
- to evaluate and monitor the implementation of Board resolutions; and
- to make recommendations and proposals on important issues for discussion and determination by the Board of Directors.

(ii) Audit committee

Main authorities and duties of the Audit Committee are:

- to propose the appointment or replacement of external auditors;
- to monitor the internal audit system of the Bank and its implementation, and evaluate the work procedures and work effectiveness of its internal audit department;
- to coordinate the communication between internal auditors and external auditors;
- to audit the financial information of the Bank and disclosure of such information, and is responsible for the annual audit work of the Bank, including issue of a conclusive report on whether the information contained in the audited financial statements is true, accurate, complete and updated, and submit the same to the Board of Directors for consideration;
- to examine the internal control system of the Bank, and make recommendations for improvement in the internal control of the Bank;
- to review and supervise the mechanism for the Bank's employees to whistle blow any misconduct in respect of financial reports, internal control or otherwise, so as to ensure that the Bank always handles the whistle blowing issues in a fair and independent manner and takes appropriate actions;
- to examine the accounting policies, financial reporting procedures and financial position of the Bank; and
- any other task delegated by the Board of Directors.

(iii) Related party transactions control committee

Main authorities and duties of the Related Party Transactions Control Committee are:

- to identify connected persons of the Company according to relevant laws and regulations;
- to inspect, supervise and review major related party transactions and continuing related party transactions, and to control the risks associated with related party transactions;
- to review the administrative measures on related party transactions of the Bank, and to monitor the establishment and improvement of the related party transactions management system of the Bank; and
- to review the announcements on related party transactions of the Bank.

(J) Corporate governance *(continued)*

Board committees *(continued)*

(iv) Risk and capital management committee

Main authorities and duties of the Risk and Capital Management Committee are:

– to supervise the status of risk control by the senior management of the Bank in relation to credit risk, market risk, operational risk, liquidity risk, strategic risk, compliance risk, reputation risk, country risk and other risks;

– to make regular assessment on the risk policies, management status, risk-withstanding ability and capital status of the Bank;

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

– to submit proposals on perfecting the management of risks and capital of the Bank;

– to arrange and instruct risk prevention works in accordance with the authorisation of the Board of Directors; and

– any other task delegated by the Board of Directors.

(v) Remuneration and appraisal committee

Main authorities and duties of the Remuneration and Appraisal Committee are:

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

– to study and review the remuneration policies and proposals in respect of directors and senior management of the Bank, make recommendations to the Board of Directors and supervise the implementation of such proposals;

– to review the regulations and policies in respect of remuneration of the Bank; and

– any other task delegated by the Board of Directors.

(vi) Nomination committee

Main authorities and duties of the Nomination Committee are:

– to review the structure, size and composition of the Board of Directors (including their expertise, knowledge and experience) at least once a year and make recommendations on any change to the Board of Directors to implement the strategies of the Bank according to the Bank's business operations, asset scale and shareholding structure of the Bank;

– to study the standards and procedures for selection of directors and senior management, and make recommendations to the Board of Directors;

– to conduct extensive searches for qualified candidates for directors and senior management;

– to conduct preliminary examination on the candidates for directors and senior management and make recommendations to the Board of Directors; and

– any other task delegated by the Board of Directors.

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